

State of Montana
Office of the Legislative Auditor
REPORT TO THE LEGISLATURE
MONTANA STATE UNIVERSITY
MONTANA AGRICULTURAL
EXPERIMENT STATION
MONTANA COOPERATIVE
EXTENSION SERVICE

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

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This report contains nine recommendations for improvement of the university operations. The major items addressed in the report include:

- Unrecorded financial transactions with the foundation.
- Compliance with state law governing appropriations.
- Compliance with state policy governing use of Contingent Revolving funds.
- Lost interest of approximately \$66,000 due to cash management practices.



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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

June 1988

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State University, Cooperative Extension Service, and Agricultural Experiment Station financial activity for fiscal years 1985-86 and 1986-87. The university's written response to audit recommendations is included in the back of the audit report.

We thank the president and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor
MONTANA STATE UNIVERSITY
MONTANA AGRICULTURAL EXPERIMENT STATION
MONTANA COOPERATIVE EXTENSION SERVICE

Financial and Compliance Audit
For the Two Fiscal Years Ended June 30, 1987

Audit staff involved in this audit included: Julie Barr, Joan Anderson, Becky Dorwart, Wayne Kedish and Rich McRae.

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

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Dr. James Welsh	Director of Agriculture and Extension
Dr. James Isch	Director of Administration

SUMMARY OF AUDIT RECOMMENDATIONS

This listing serves as means of summarizing the recommendations contained in the report and the university's reply.

	<u>Page</u>
<u>Recommendation #1</u>	
The University:	
A. Enter into a written contract with the Foundation setting forth rights and duties of each party.	6
University Response: Concur. See page 87.	
B. Monitor the contract to ensure state funds were spent in accordance with donor, state and university laws and policies.	6
University Response: Concur. See page 87.	
C. Account for donations to the university in the appropriate state funds.	6
University Response: Concur. See page 87.	
<u>Recommendation #2</u>	
The University establish procedures to ensure the financial activity recorded on SBAS is in accordance with GAAP.	7
University Response: Partially concur. See page 87.	
<u>Recommendation #3</u>	
The University:	
A. Record the budgets approved by the Board of Regents.	8
University Response: Concur. See page 88.	
B. Obtain authorized budget amendments before changing the approved amounts recorded on the accounting system.	9
University Response: Concur. See page 88.	
<u>Recommendation #4</u>	
The University comply with the appropriation bill language concerning allocation of audit costs.	9
University Response: Concur. See page 88.	

SUMMARY OF AUDIT RECOMMENDATION
(continued)

	<u>Page</u>
<u>Recommendation #5</u>	
The University use the contingent revolving account in compliance with state policy.	11
University Response: Concur. See page 88.	
<u>Recommendation #6</u>	
The University request grant moneys in a manner which will minimize the necessity for the state to advance cash to grant programs.	12
University Response: Concur. See page 89.	
<u>Recommendation #7</u>	
The University deposit receipts on a timely basis in accordance with state law.	13
University Response: Concur. See page 89.	
<u>Recommendation #8</u>	
The University:	
A. Submit its student confirmation report to the central processing center on a timely basis.	15
University Response: Concur. See page 90.	
B. Use its computer reports to identify students and notify lenders directly of enrollment changes when timely notification cannot be met by the student confirmation report process.	15
University Response: Concur. See page 90.	
<u>Recommendation #9</u>	
The University follow its policy and require the signature of the financial aid office on all student withdrawals.	16
University Response: Concur. See page 90.	

INTRODUCTION

We performed a financial-compliance audit of Montana State University (MSU) and the related Cooperative Extension Service (CES) and Agricultural Experiment Station (AES) for the two fiscal years ended June 30, 1987. The objectives of the audit were to:

1. Determine if the university complied with applicable laws and regulations which could have a significant effect on the financial statements.
2. Make recommendations for improvements in the management and internal accounting controls of the university.
3. Determine if the financial statements present fairly the financial position and results of operations of the university for the two fiscal years ended June 30, 1987.
4. Determine the implementation status of prior audit recommendations.

This report contains 9 recommendations which address areas where compliance with laws and regulations, management and internal controls, and financial reporting can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the university programs are not specifically included in the report, but have been discussed with management.

Our last financial-compliance audit of the university for the two fiscal years ended June 30, 1985, contained six recommendations still applicable to the university. The university implemented one of the recommendations, partially implemented four of the recommendations, and did not implement one of the recommendations. The recommendations which the university partially implemented concern compliance with state purchasing regulations, cash management practices, recording of expenditure accruals, and plant, property and equipment. These issues have been discussed with management and the cash management practices issue is discussed on page 11. The recommendation which the university did not implement concerns cash deposits and is discussed on page 12.

In accordance with section 5-13-307, MCA, we analyzed the costs of

implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

BACKGROUND

Montana State University was founded on February 15, 1893, as the Agricultural College of the state of Montana, and instruction started on April 17 of that year. The school was later named Montana State College, and on July 1, 1965, it became Montana State University (MSU). The university is a land-grant institution as authorized by the Morrill Act of 1862 and receives part of its support from land-grant income, as well as state appropriations, student fees, and federal and private grants.

The public service function of the university had its origin in the establishment of the Cooperative Extension Service (CES) in 1915, created under the federal Smith-Lever Act and state legislation. Financial support for its operation comes from county, state, and federal governments, as well as from federal and private grants. County agents and specialists are an integral part of the university and channel information to Montanans to aid in solving home, farm, and community problems.

The Agricultural Experiment Station (AES) is also an integral part of the university. It was established in 1893 by the Montana Legislature under authorization provided by the federal Hatch Act of 1887. The station receives federal funds under the Hatch Act, as well as state appropriations, federal and private grants, and funds from the sale of surplus agricultural products. The Agricultural Experiment Station has eight locations in the state, in addition to the Bozeman campus. The station components are devoted to solving present and future agricultural and home economics problems of local, regional, and national concern. The distribution of research centers is such that the peculiarities of local or area soil, water, and climate can be considered.

According to estimates provided by the Office of Commissioner of Higher Education, the University, AES, and CES had approximately 1,784.02, 285.62, and 154.16 employee FTE's during fiscal year 1986-87, respectively. The number of FTE by classification is shown in the following schedule:

ESTIMATED EMPLOYEE FTE
FISCAL YEAR 1986-87

<u>MONTANA STATE UNIVERSITY</u>			
	<u>Appropriated</u>	<u>Nonappropriated</u>	
	<u>Fund</u>	<u>Funds</u>	<u>Total</u>
Contract Faculty	522.09	-	522.09
Contract Professional and Administration	117.88	32.29	150.17
Classified	292.08	146.16	438.24
Grad. Teach. Asst.	60.15	-	60.15
Grad. Research Asst.	4.25	-	4.25
Part-time and Other	77.26	191.86	269.12
Total Restricted Fund ^a	-	<u>340.00</u>	<u>340.00</u>
Total	<u>1,073.71</u>	<u>710.31</u>	<u>1,784.02</u>

<u>AGRICULTURAL EXPERIMENT STATION</u>			
	<u>Appropriated</u>	<u>Nonappropriated</u>	
	<u>Fund</u>	<u>Funds</u>	<u>Total</u>
Contract Faculty	90.08	-	90.08
Contract Professional and Administration	27.96	-	27.96
Classified	127.00	5.51	132.51
Grad. Teach Asst.	15.50	-	15.50
Part-time and Other	<u>17.23</u>	<u>2.34</u>	<u>19.57</u>
Total	<u>277.77</u>	<u>7.85</u>	<u>285.62</u>

<u>COOPERATIVE EXTENSION SERVICE</u>			
	<u>Appropriated</u>	<u>Nonappropriated</u>	
	<u>Fund</u>	<u>Funds</u>	<u>Total</u>
Contract Faculty	89.56	-	89.56
Contract Professional and Administration	11.90	3.66	15.56
Classified	30.24	11.25	41.49
Part-time and Other	<u>3.60</u>	<u>3.95</u>	<u>7.55</u>
Total	<u>135.30</u>	<u>18.86</u>	<u>154.16</u>

^a The number by classification was not provided. This represents the total FTE's paid out of Restricted Funds.

Compiled by the Commissioner of Higher Education.

The president of Montana State University is the chief executive officer for all three units: MSU, AES, and CES. The president is responsible for the immediate direction, management, and control of the institution under the

general supervision and direction of the Board of Regents. Effective July 1, 1987, AES and CES consolidated the administration function. However, AES and CES will continue to receive separate funding and budgets.

MSU FOUNDATION

The university receives donations from outside parties. The Foundation solicits and also receives donations from outside parties. The Foundation is a nonprofit, tax-exempt corporation established to solicit and receive donations to fund various activities at the university. During our audit, we noted it is the university's policy to deposit and record receipts of donations it receives for unknown beneficiaries into the university's uncleared collections Agency Fund. At the time the university determines where the moneys should be directed (the university or the Foundation) adjustments are made. If the university determines the donations were intended for the Foundation, then the university transfers the moneys to the Foundation. We also noted instances where other donations the university received were not recorded on the university's accounting records but were given to the Foundation. Types of donations where the checks were made payable to the university but the funds transferred to the Foundation include:

1. Funds from individuals.
2. Funds left to the university by individuals in their wills.
3. Funds from corporations.
4. Funds for scholarships which had been accounted for by the university and at a later date (up to several years) the donor requests the funds be transferred to the Foundation.
5. Funds received for an established Foundation program.

Donations made to the university are university assets and should be recorded on the university's records as state assets. As a general rule, if the Foundation is to handle donations, the university and the Foundation should enter into a contract which clearly sets forth rights and duties of both parties. The university may not donate assets to the Foundation, but may contract with the Foundation to administer selected university assets. The university and Foundation could enter into a broad-based, long-term agreement for the Foundation to carry out certain administrative functions related to

donations which would then eliminate the necessity of many individual contracts relating to individual donations. For donations which are determined to be university assets, the university should monitor its contract with the Foundation to ensure the funds are spent in accordance with donor restrictions and state laws and university policies. Monitoring activities could include reviews of financial reports from the foundations, periodic audits, or reviews of the foundation's audit reports. If a donor makes a donation to the university, and subsequently requests the moneys be transferred to the Foundation, the university should only transfer the donated assets pursuant to a contractual arrangement whereby the Foundation will administer the funds. Section 17-6-201(4), MCA, states "the board (of Investments) has the sole authority to invest state funds. No other agency may invest such state funds." Under the existing law, MSU does not have the authority to invest or to contract for investing these moneys. The university should record revenue for donations received and an advance for amounts disbursed to the Foundation in the appropriate state fund. The university should record expenditures related to each fiscal year in its accounting records based upon reports from the Foundation. Currently, the university does not have a written contract with the Foundation for administering donations. However, university officials indicated they have started the process of writing a contract with the Foundation.

According to university personnel, the university wanted a central office to bear the responsibility of soliciting, administering, and acknowledging all donations to and for the benefit of the university. Since the Foundation is established specifically for that purpose, the university decided the Foundation should be the primary source of formal acceptance and accounting for donations to and for the benefit of the university. In addition, university personnel also stated that many corporate foundations cannot donate directly to other foundations. Since the university did not keep records of all receipts and expenditures which were transferred to the Foundation for management, it was not practical to determine the dollar misstatement on the university's accounting records. The misstatement consists of donation revenue received during the audit period and an asset value for the accumulation of unspent donations the university received and transferred to the Foundation for administration purposes.

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY:

- A. ENTER INTO A WRITTEN CONTRACT WITH THE FOUNDATION SETTING FORTH RIGHTS AND DUTIES OF EACH PARTY.
- B. MONITOR THE CONTRACT TO ENSURE STATE FUNDS WERE SPENT IN ACCORDANCE WITH DONOR, STATE AND UNIVERSITY LAWS AND POLICIES.
- C. ACCOUNT FOR DONATIONS TO THE UNIVERSITY IN THE APPROPRIATE STATE FUNDS.

STATE COMPLIANCE

We reviewed state laws and regulations pertaining to the university. The following report sections discuss compliance issues we noted during our audit.

Accounting Records

Financial information of the university is used by university administrators, regents, legislators, and others to manage and establish funding levels for the university. The university uses the Statewide Budgeting and Accounting System (SBAS) to record its financial activity. However, in order to conform to generally accepted accounting principles (GAAP), the university makes manual routine adjustments to the SBAS amounts when preparing its financial statements. Section 17-1-102(4), MCA, indicates "all state agencies, including units of the university system ... shall input all necessary transactions to the accounting system ... before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable for in accordance with (GAAP) ..."

We noted the following instances where the amounts the university recorded on SBAS did not comply with state law:

1. Amounts relating to the recording of bond proceeds for defeased bonds, expenditures for construction in progress, and bond payable changes relating to the current year's amount of equipment purchased or construction in progress are not recorded in compliance with state policy.
2. Amounts for equipment, land, building and inventory represent the actual balance as of the previous year.

3. Amounts relating to recording of the use of excess "fixed price" contract moneys and termination pool activities are accounted for in a Restricted Fund rather than an Unrestricted Fund.
4. Amounts do not reflect the recording of interdepartmental eliminations, the total amount due from grantors and the total amounts payable to grantors, or the intrafund cash cutoff eliminations.
5. Amounts include a construction advance to Department of Administration, Architecture and Engineering, for long range building program (LRBP) activity even though no actual construction advance is sent from the university.
6. Amounts include escrow activity for bonds defeased even though the university is no longer liable for those bonds.

Without all financial activity recorded on the state's accounting records, the quality, consistency, and comparability of the resulting financial information is affected. Most of the above errors occurred because university personnel would rather wait until after SBAS is closed and the actual figures are known to make the necessary adjustments. In addition, the present recording of some information is for management purposes rather than accounting purposes. The university should consider establishing separate responsibility centers to record these GAAP adjustments. This would still provide management information and also ensure financial information, in total, is in accordance with GAAP.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY ESTABLISH PROCEDURES TO ENSURE THE FINANCIAL ACTIVITY RECORDED ON SBAS IS IN ACCORDANCE WITH GAAP.

Budget Approval

In May and June of each fiscal year, all university units are required to submit budget proposals and operating plans to the Commissioner of Higher Education (CHE) for the Board of Regents (BOR) approval. The units record the budgets in the state's accounting records subsequent to the BOR's approval. During our audit, we noted the fiscal year 1985-86 budgets approved by the BOR differ from those recorded in the state's accounting system for

AES's and CES's Designated Funds and for the university's Restricted Fund. For fiscal year 1986-87, the budgets approved by the BOR differ from those recorded in the state's accounting system for AES's Restricted and Designated Funds.

House Bill 500, Laws of 1985, and House Bill 30, Special Session June 1986, state "all funds other than plant funds and current unrestricted operating funds, may be spent and are appropriated contingent upon approval by Board of Regents by July 1 of each year of the comprehensive program budget." Appropriations and state laws also designate the BOR or the Commissioner of Higher Education as the approving authority for budget amendments. By recording a different budget on the state's accounting records than the budget approved by the BOR, the university bypasses the amendment process or establishes an appropriation which is not considered or approved by the BOR. As a result, unauthorized increases in the budget could occur and the chance that the university, AES, and CES could overspend approved budget authority increases.

The university personnel indicated the differences occurred because:

1. Between the time the BOR approves the operating plan submitted to the CHE and the time the budgets are recorded on the state's accounting records, the unit has obtained more precise budget information. The unit records the updated budget information on the accounting system but does not obtain approval from the BOR or CHE of the change.
2. When the university submitted the input documents to the Office of Budget and Program Planning, the university decided to leave some appropriations open by recording one dollar.
3. CES personnel indicated the wrong dollar amount was copied from the operating plan to the input document.
4. AES personnel indicated they were not aware of the need for additional approval for the increases or decreases in the operating plan.

In order to comply with appropriation laws the university should ensure all budgets are approved by BOR.

RECOMMENDATION #3

WE RECOMMEND THE UNIVERSITY:

- A. RECORD THE BUDGETS APPROVED BY THE BOARD OF REGENTS.

B. OBTAIN AUTHORIZED BUDGET AMENDMENTS BEFORE CHANGING THE APPROVED AMOUNTS RECORDED ON THE ACCOUNTING SYSTEM.

Audit Costs

The Montana Legislature establishes appropriations in the Current Unrestricted Operating Fund for each unit in the university system. House Bill 500, Laws of 1985, and House Bill 30, Special Session June 1986, for the 1986-87 biennium established audit appropriations. Language in the House Bills state the university must charge the actual audit costs 50 percent to appropriated funds (Current Unrestricted Operating Fund) and 50 percent to nonappropriated funds.

During fiscal year 1986-87, the university incurred \$26,754 in audit costs and paid 78 percent of these costs from the Current Unrestricted Operating Fund audit appropriation. The university failed to comply with the appropriation bill language governing the use of the Current Unrestricted Operating Fund involving audit cost payments. As a result, the university spent \$7,382 of the Current Unrestricted Operating Funds that should have been expended from nonappropriated funds. University officials indicated it recorded the costs in this manner because they believed the appropriation language meant the university could charge the Current Unrestricted Operating Funds for the amount of the appropriation.

RECOMMENDATION #4

WE RECOMMEND THE UNIVERSITY COMPLY WITH THE APPROPRIATION BILL LANGUAGE CONCERNING ALLOCATION OF AUDIT COSTS.

Contingent Revolving Fund

Section 17-2-201, MCA, allows the Department of Administration to authorize the establishment and maintenance of contingent revolving funds (CRF) for specific purposes. State policy indicates that "a revolving cash account ... is used to make disbursements where timing needs cannot be met by the state warrant system. The revolving cash account is to be used for purposes demanding immediate payment ... Agencies should use their judgment

in deciding whether a particular transaction qualifies as a minor, immediate or emergency payment. Under normal circumstances, transactions input to SBAS will generate a warrant for mailout or pick-up the next afternoon." This policy was developed to attempt to minimize the amount of cash and related activity in nontreasury accounts, while maintaining a system to pay for items on an emergency or immediate needs basis. If the moneys are in a treasury account, the state can maximize the investment earnings on these funds.

During our audit we noted the university used its CRF for purposes other than those specified in state policy (i.e., did not require immediate payment or was not specifically listed in state policy). Some examples include:

1. Payments to the Endowment and Alumni Foundation for donations and use agreements.
2. Payment of \$64,069 for consulting services from November 1, 1986 through December 31, 1986.
3. Purchase of \$63,000 of physics equipment. The invoice was received December 9, 1986 and paid April 28, 1987.
4. Payment of \$49,636 for utilities.
5. Payments of most travel advances even though not of an emergency nature.
6. Two payments totaling \$109,539 for a construction contract.
7. A \$53,365 reimbursement of gate receipts to a national athletic association.

In addition, we reviewed four months activity in the CRF. As shown below, the university uses its CRF extensively.

<u>Month</u>	<u>Amount of</u> <u>Checks</u> *	<u>Number</u> <u>Checks Written*</u>
September 1986	\$484,018	663
December 1986	\$646,980	822
March 1987	\$577,894	906
June 1987	\$669,959	931

*Excludes student financial aid

University departments send invoices and the related claim to the Business Office marked "special check." A claim marked "special check"

indicates the payment is to be made from the CRF. However, many of the invoices could be sent through the state treasury system and still be paid on time. In addition, some of the invoices have been sitting at the departments for so long, an emergency situation has been created and it is necessary to pay the invoice from the CRF. The university devotes more resources to handling the CRF than is necessary because of the time involved in issuing the check, getting the account reimbursed, and reconciling the account. After we brought this issue to the university's attention, it revised its policy and sent a memorandum to all departments clarifying the policy.

RECOMMENDATION #5

WE RECOMMEND THE UNIVERSITY USE THE CONTINGENT REVOLVING ACCOUNT IN COMPLIANCE WITH STATE POLICY.

Cash Management

During fiscal year 1986-87, the university received approximately \$19 million of federal, state, and private moneys for grants, contracts, and student aid. The university receives these funds through cash requests (or drawdowns) and reimbursement billings. Because drawdowns and billings are predominantly on a reimbursement basis and are requested on a monthly or longer basis, there is a time lag between an expenditure and subsequent reimbursement that is filled by using state funds. Based on our analysis of balances in project accounts, we estimated the university's use of state funds to cover project cash shortfalls due to the time lag cost the state approximately \$23,845 in fiscal year 1985-86 and \$42,119 in fiscal year 1986-87 in lost investment income.

Federal regulations state the recipient shall make drawdowns as close as possible to the time of making disbursements. Section 17-2-108, MCA, requires agencies to use non-General Fund moneys wherever possible before using General Fund moneys. These federal and state regulations provide for the use of frequent drawdowns in order to minimize lost investment income to the state on state funds or to the federal government on federal funds.

According to university personnel, the reasons the university needs state funds to cover project cash shortfalls is because of the timing and receipt of drawdowns, and billings and also the time involved in preparing billings.

Drawdowns are generally made once a month after the payroll costs are paid. Billings are generally made monthly or quarterly. If the university were to request project funds more frequently and alter provisions in contracts to allow more frequent billings, it should help reduce the amount of state funds needed to temporarily support the projects.

In our prior audit we also recommended the university request moneys in a manner which would minimize the necessity for the state to support projects. Previously the university's drawdowns were made at the end of the month but prior to the payroll costs being paid. These drawdowns did not include an estimate for the payroll costs and therefore the university did not get reimbursed for the payroll costs until the following month's drawdown. The university altered the timing of the drawdowns so they were made after the payroll was paid. This helped reduce the time lag. A certain amount of time lag can be expected, however, we believe the university could reduce the time lag further by projecting its cash needs more closely and requesting grant funds as needed.

RECOMMENDATION #6

WE RECOMMEND THE UNIVERSITY REQUEST GRANT MONEYS IN A MANNER WHICH WILL MINIMIZE THE NECESSITY FOR THE STATE TO ADVANCE CASH TO GRANT PROGRAMS.

Cash Deposits

Section 17-6-105(6), MCA, requires all moneys received be deposited each day when the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. In any event, all moneys collected shall be deposited at least weekly. During our testing we noted CES's print shop (Multilith) collections were not deposited on a timely basis. Multilith deposits its collections approximately twice a month. For those tested, the deposits ranged from \$375 to \$1,097. Multilith personnel did not deposit these collections weekly or when the amount of coin and currency exceeded \$100 or total collections exceeded \$500. Multilith personnel indicated this occurs because of busy schedules and wanting to ensure deposits are accurate. The failure to deposit receipts on a timely basis results in lost interest on the undeposited

amounts during the time period the deposits are delayed and increases possibility of loss or misuse of funds.

RECOMMENDATION #7

WE RECOMMEND THE UNIVERSITY DEPOSIT RECEIPTS ON A TIMELY BASIS IN ACCORDANCE WITH STATE LAW.

Contracted Services

Our office issued a performance audit report (report #87P-35) on state agency use of contracted services in December 1987. The report discusses concerns regarding management controls and agency use of contracted services in state government. The performance audit results at the university indicated that, overall, amounts and purposes were reasonable, monitoring procedures were adequate, and modifications of contracts were not excessive or did not cost a great amount. The performance audit report addressed specific concerns affecting the state as a whole but did not discuss the university specifically. The significant performance audit findings related to the university are summarized below.

1. The university has policies, procedures, and guidelines regarding the use of contracted services. However, the policy only covers internal procedures and not actual contract content. Of the contracts reviewed at the university, all were missing one or more of the 16 minimum requirements established by state policy. In order to ensure adequate and consistent handling of contracts throughout the university, the written policies and procedures should be more specific and address contract content.
2. Two former employees of the university were found to have contracted with the university within six months of their termination. Section 2-2-201, MCA, states "a former employee may not, within 6 months following the termination of his employment contract ... with the state ... involving matters with which he was directly involved during his employment."
3. The university did not document that all contracts were reviewed by legal counsel prior to being finalized. State policy includes legal approval as standard procedure prior to entering into professional service contracts. The university should document the legal review of contracts.
4. One user of the fieldhouse facility did not provide additional required liability insurance. The fieldhouse has a user policy which requires the user to provide liability insurance for extracurricular

activities held within the fieldhouse. Since a lack of coverage creates a potential liability for the university, it should require all users of the facility to furnish copies of an insurance policy to document that insurance has been issued, as required by the facilities users agreement.

In addition to the concerns noted above, the contracted services audit also noted concerns regarding certification of workers' compensation, procurement of services, maintenance of central bidders list, and adequacy of backup documentation. Based on work performed in the current audit, the university has corrected, or at least partially corrected, these concerns.

A state task force, organized to act in response to the contracted services audit findings and recommendations included an individual from the university. The task force drafted a management memorandum to eliminate conflicting state policies and provide guidance in the area of contracted services. The memorandum addresses a variety of issues including those problems identified at the university. This section is for disclosure only and we make no recommendations at this time.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements of Standards for Audits of Governmental Organizations, Programs, Activities, and Functions and Office of Management and Budget "Circular A-128." Circular A-128 provides for independent audits of financial operations, including compliance with certain federal laws and regulations. The following sections discuss two instances where the university is not in compliance with federal regulations.

Guaranteed Student Loans

Federal regulations require schools to notify lenders who issue students Guaranteed Student Loans (GSL) (CFDA #84.032) whenever the students graduate, withdraw, or cease to be enrolled at least half-time. This notification enables the lenders to place the loans in repayment status. The university notifies GSL lenders of changes in students' enrollment status on a semi-annual Student Confirmation Report (SCR). After university personnel complete the SCR and send it back to a central processing company, the company uses the information to notify applicable lenders. Federal regulations

require the university to return the SCR report within 30 days of its receipt. For three out of four SCR reports tested, the university did not submit the SCR to the central processing company within 30 days of receipt. University personnel indicated this occurred due to problems encountered when it revised its manual reporting system to an automated one.

Federal regulations also require the university to report the enrollment status change directly to the lender if it does not expect to submit its next SCR within 60 days. For five of six students tested, the university did not report enrollment status changes directly to the lenders, as required by federal regulations. University personnel indicated they relied on the SCR report to notify lenders because the computer report used to identify the students did not always contain accurate and complete information. University personnel indicated the computer reports have been correct since fall quarter 1987.

To improve the ability to collect GSLs the university should notify lenders in compliance with federal regulations.

RECOMMENDATION #8

WE RECOMMEND THE UNIVERSITY:

- A. SUBMIT ITS STUDENT CONFIRMATION REPORT TO THE CENTRAL PROCESSING CENTER ON A TIMELY BASIS.
- B. USE ITS COMPUTER REPORTS TO IDENTIFY STUDENTS AND NOTIFY LENDERS DIRECTLY OF ENROLLMENT CHANGES WHEN TIMELY NOTIFICATION CANNOT BE MET BY THE STUDENT CONFIRMATION REPORT PROCESS.

Student Financial Aid Refunds

According to federal regulations, if a student who had received student financial aid, other than college work-study, is due a refund, the university must return a portion of the refund to the student financial aid program. According to university policy, when a student seeks a withdrawal, the student must receive the signatures of various campus offices to ensure any financial obligations of the student are met prior to the withdrawal. A financial aid officer is one of the signatures required.

We tested eight student withdrawals in which the student received a refund and also received student financial aid. Of the eight tested, we noted

one exception. The student withdrew after the cutoff date for refunds for fall quarter 1985, but was granted a retroactive withdrawal. This retroactive withdrawal entitled the student to a refund. Because the financial aid office was verbally notified of the withdrawal and was not aware the withdrawal was retroactive, the student received the entire refund even though the student had received a Pell grant (CFDA #84.063). The Pell program should have been reimbursed \$228.

To avoid misunderstandings on the effective date of withdrawals, the university should require the actual signature of a financial aid officer on the withdrawal form.

RECOMMENDATION #9

WE RECOMMEND THE UNIVERSITY FOLLOW ITS POLICY AND REQUIRE THE SIGNATURE OF THE FINANCIAL AID OFFICE ON ALL STUDENT WITHDRAWALS.

AUDITOR'S OPINION LETTERS

AND

MONTANA STATE UNIVERSITY FINANCIAL STATEMENTS

AGRICULTURAL EXPERIMENT STATION FINANCIAL STATEMENTS

COOPERATIVE EXTENSION SERVICE FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINIONS

The auditor's opinions issued on Montana State University, Agricultural Experiment Station and Cooperative Extension Service are intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the MSU amounts presented on the statements listed in paragraph one of the auditor's opinion on page 17, except for the recording of interdepartmental eliminations, charges to grants and contracts for future employee terminations, construction in progress and funds held by an escrow agent during a repurchase of defeased bonds, when analyzing MSU's operations.

The reader may rely on the fairness of the AES amounts presented on the statements listed in paragraph one of the auditor's opinion on page 53, except for the recording of changes to grants and contracts for future employee terminations and misclassification of revenue when analyzing AES's operations.

The reader may rely on the fairness of the CES amounts presented on the statements listed in paragraph one of the auditor's opinion on page 71, except for the recording of interdepartmental eliminations and expenditure accruals when analyzing CES' operations.

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the accompanying Balance Sheets of the Montana State University (MSU) at June 30, 1986 and 1987, and the related Statements of Changes in Fund Balances and Current Funds Revenues, Expenditures, and Other Changes for the two fiscal years ended June 30, 1987. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The university did not eliminate computer center interdepartmental transactions in fiscal year 1985-86. As a result, revenue and expenditures in the Designated Subfund are overstated by \$1,074,718.

The university accounts for moneys charged to grants and designated to pay for future employee terminations in the Restricted Subfund. The use of these moneys is at the discretion of the university and, as such, should be accounted for in the Unrestricted Designated Subfund. As a result, the Restricted Subfund is overstated and the Unrestricted Designated Subfund is understated by the following amounts:

	<u>Fiscal Year</u> <u>1985-86</u>	<u>Fiscal Year</u> <u>1986-87</u>
Cash	\$ 36,569	\$ 46,559
Expenditures	134,117	160,057
Prior Year Expenditures	180,647	
Compensated Absence Liability	229,668	300,976
Prior Year Revenue	35,485	
Revenue	86,180	98,738
Beginning Fund Balance		193,099

The university did not capitalize construction in progress in accordance with generally accepted accounting principles. As a result the Unexpended Plant Subfund is over (under) stated by the following amounts:

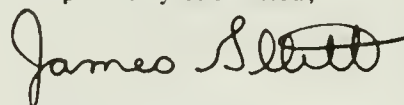
	<u>Fiscal Year</u> <u>1985-86</u>	<u>Fiscal Year</u> <u>1986-87</u>
Transfer of Bond Liability	\$1,007,984	\$6,531,166
Expenditures	1,007,984	5,776,258
Construction advance		272,318
Bond Payable		(482,590)

The university improperly accounted for funds held by an escrow agent during a repurchase of defeased bonds. As a result, Retirement of Indebtness Subfund expenditures are overstated and accounts receivable are understated by \$2,150,063 in fiscal year 1986-87.

In our opinion, except for the effects of the matters discussed in paragraphs two through five, the financial statements referred to above present fairly the financial position of Montana State University as of June 30, 1986 and June 30, 1987, the changes in its fund balances, and the current funds revenue, expenditures, and other changes for each of the two fiscal years ended June 30, 1987, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Full-Time Equivalent (FTE) Students for the two fiscal years ending June 30, 1987, prepared in accordance with the Registrar's Manual for Reporting Enrollment Data reporting requirements, is presented as supplemental information and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our examination of the basic financial statements. In our opinion, except for the effects of the matter discussed in paragraphs two through five, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

March 18, 1988

MONTANA STATE UNIVERSITY
BALANCE SHEETS
Year Ended June 30, 1987

ASSETS

CURRENT FUNDS:

Unrestricted:

General operating:

Cash	\$ 857,423
Accounts receivable	3,239,228
Due from other fund groups	2,166,521

Total general operating 6,263,172

Designated:

Cash	438,359
Accounts receivable	453,722
Due from other fund groups	1,523,948
Investments (Note 3)	102,800
Inventories	501,688
Total designated	<u>3,020,517</u>

Auxiliary enterprises:

Cash	188,981
Accounts receivable	438,252
Due from other fund groups	230,776
Investments (Note 3)	2,191,500
Inventories	338,005

Total auxiliary enterprises 3,387,514

Total unrestricted 12,671,203

Restricted:

Cash	502,472
Accounts receivable	1,215,794
Due from other fund groups	63,300
Investments (Note 3)	533,313

Total restricted 2,314,879
Total current funds \$ 14,986,082

STUDENT LOAN FUNDS:

Cash	\$ 90,447
Loan receivable - less allowance for bad debts	8,302,692
Accounts receivable	258
Investments (Note 3)	33,500

Total student loan funds \$ 8,426,897

See notes to financial statements

LIABILITIES AND FUND BALANCES

CURRENT FUNDS

Unrestricted:

General operating:

Accrued payroll	\$ 2,560,764
Accounts payable and accrued liabilities	1,565,203
Due to other fund groups	1,431,171
Deposits	21,527
Deferred revenue	548,981
Compensated absences payable (Note 7)	3,337,233
Fund balance (Note 1)	<u>(3,201,707)</u>
Total general operating	<u>6,263,172</u>

Designated:

Accrued payroll	266,351
Accounts payable and accrued liabilities	616,682
Due to other fund groups	2,224,520
Compensated absences payable (Note 7)	296,272
Fund balance (Note 1)	<u>(383,308)</u>
Total designated	<u>3,020,517</u>

Auxiliary enterprises:

Accrued payroll	262,819
Accounts payable and accrued liabilities	198,550
Deposits	194,116
Deferred revenue	53,828
Due to other fund groups	287,593
Compensated absences payable (Note 7)	349,635
Fund balance	<u>2,040,973</u>
Total auxiliary enterprises	<u>3,387,514</u>

Total unrestricted	<u>12,671,203</u>
--------------------	-------------------

Restricted:

Accrued payroll	453,391
Accounts payable and accrued liabilities	321,658
Due to other fund groups	514,569
Compensated absences payable (Note 7)	300,976
Fund balance	724,285

Total restricted	<u>2,314,879</u>
------------------	------------------

Total current funds	<u>\$ 14,986,082</u>
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STUDENT LOAN FUNDS:

Accounts payable and accrued liabilities	\$ 888
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Fund balances:

U.S. Government grants refundable	\$ 7,531,549
University funds	836,839
Private gifts	<u>57,621</u>
Total student loan funds	<u>\$ 8,426,009</u>

	<u>\$ 8,426,897</u>
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MONTANA STATE UNIVERSITY
BALANCE SHEETS
Year Ended June 30, 1987

ASSETS

ENDOWMENT FUNDS:

Cash	\$ 1,350
Accounts receivable	59
Investments (Note 3)	590,600

Total endowment funds \$ 592,009

PLANT FUNDS:

Unexpended:

Cash	\$ 151,982
Accounts receivable	140,928
Due from other fund groups	281,193
Investments (Note 3)	7,358,931
Construction advances to state	546,442

Total unexpended 8,479,476

Renewals and replacements:

Cash	89,462
Accounts receivable	1,238
Due from other fund groups	585
Investments (Note 3)	864,199

Total renewals and replacements 955,504

Retirement of indebtedness:

Cash	235,323
Accounts receivable	325,294
Due from other fund groups	1,531
Investments (Note 3)	6,034,226

Total retirement of indebtedness 6,596,374

Investment in plant:

Land and land improvements	2,524,311
Buildings (including construction in progress)	92,853,187
Equipment	48,581,356
Livestock	90,650

Total investment in plant 144,049,504

Total plant funds \$160,080,858

AGENCY FUNDS:

Cash	\$ 4,879
Accounts receivable	139,068
Due from other fund groups	715,066
Investments (Note 3)	599,192

Total agency funds \$ 1,458,205

See notes to financial statements

LIABILITIES AND FUND BALANCES

ENDOWMENT FUNDS:

Fund balance	\$ 592,009
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Total endowment funds	<u>\$ 592,009</u>
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PLANT FUNDS:

Unexpended:

Accounts payable and accrued expenditures	\$ 80,378
Due to other fund groups	17,056
Compensated absences payable (Note 7)	500
Bonds payable (Note 4)	12,582,615
Fund balance	(4,201,073)

Total unexpended	<u>8,479,476</u>
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Renewals and replacements:

Accounts payable and accrued expenditures	29,533
Due to other fund groups	14,822
Bonds payable (Note 4)	767,251
Fund balance	143,898

Total renewals and replacements	<u>955,504</u>
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Retirement of indebtedness:

Accounts payable and accrued expenditures	388,539
Due to other fund groups	250,000
Fund balance	5,957,835

Total retirement of indebtedness	<u>6,596,374</u>
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Investment in plant:

Bonds payable (Note 4)	29,925,134
Other payables	218,750
Net investment in plant	113,905,620

Total investment in plant	<u>144,049,504</u>
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Total plant funds	<u>\$ 160,080,858</u>
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AGENCY FUNDS:

Accrued payroll	\$ 30,236
Accounts payable and accrued liabilities	1,107,140
Compensated absences payable (Note 7)	3,603
Due to other fund groups	243,505
Deposits held in custody for others	73,721
Total agency funds	<u>\$ 1,458,205</u>

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 1987

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary Enterprises	Restricted
Revenue and other additions:				
Current funds revenue	\$43,514,850	\$ 6,820,371	\$11,610,346	\$15,277,276
Federal capital contribution	-	-	-	-
University capital contribution	-	-	-	-
Private capital contribution	-	-	-	-
Interest on loans receivable	-	-	-	-
Bond indenture proceeds (Note 5)	-	-	-	-
Student fees	-	-	-	-
Investment income	-	-	-	-
Endowment income & grants (Note 2)	-	-	-	-
Debt retirement (Note 5)	-	-	-	-
Transfer of bond liability	-	-	-	-
Expended for plant facilities (including \$2,691,099 charged to current funds)	-	-	-	-
Loan proceeds	-	-	-	-
State appropriations	-	-	-	-
Other	-	-	-	-
Total revenue and other additions	<u>43,514,850</u>	<u>6,820,371</u>	<u>11,610,346</u>	<u>15,277,276</u>
Expenditures and other deductions:				
Current funds expenditures	43,387,742	6,924,289	9,784,932	15,061,147
Loan cancellations	-	-	-	-
Refunded to grantors	-	-	-	-
Administrative expenditures	-	-	-	-
Provision for bad debts	-	-	-	-
Loss on sale of investments	-	-	-	-
Expended for plant facilities (Including \$687,990 non-capital expenditures)	-	-	-	-
Debt retirement (Note 5)	-	-	-	-
Interest on debt	-	-	-	-
Transfer of bond liability	-	-	-	-
Bond indenture/loan debt (Note 5)	-	-	-	-
Loss on bond refunding (Note 5)	-	-	-	-
Other (Note 5)	-	-	-	-
Total expenditures and other deductions	<u>43,387,742</u>	<u>6,924,289</u>	<u>9,784,932</u>	<u>15,061,147</u>

See notes to financial statements

Loan Funds	Endowment and similar funds	Plant Funds			
		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
111,388	-	-	-	-	-
11,954	-	-	-	-	-
725	3,266	-	-	-	-
168,317	-	-	-	-	-
-	-	-	-	34,835,000	-
-	-	351,806	-	1,047,868	-
3,468	5,039	992,048	16,261	435,339	-
-	-	-	-	653,315	-
-	-	-	-	-	34,110,431
-	-	6,248,210	1,557,748	-	-
-	-	-	-	-	10,797,819
-	-	250,000	-	-	-
-	-	796,565	-	-	-
-	-	100,311	6,220	306,991	-
<u>295,852</u>	<u>8,305</u>	<u>8,738,940</u>	<u>1,580,229</u>	<u>37,278,513</u>	<u>44,908,250</u>
-	-	-	-	-	-
123,701	-	-	-	-	-
290	-	-	-	-	-
7,325	-	-	-	-	-
(659)	-	-	-	-	-
-	14,163	-	-	-	-
-	-	8,675,949	421,269	-	-
-	-	-	-	34,110,432	-
-	-	-	-	2,655,229	-
-	-	-	-	-	7,805,958
-	-	-	-	-	35,085,000
-	-	-	-	6,179,979	-
-	-	-	-	3,575,895	-
<u>130,657</u>	<u>14,163</u>	<u>8,675,949</u>	<u>421,269</u>	<u>46,521,535</u>	<u>42,890,958</u>

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 1987

	Current Funds			
	Unrestricted			Restricted
	General Operating	Designated	Auxiliary Enterprises	
Transfer among funds - additions (deductions):				
Mandatory:				
All fund groups	\$ -	\$ (39,353)	\$ (954,000)	\$ -
Voluntary:				
General operating-net	-	-	-	-
Designated-net	-	-	(30,935)	-
Auxiliary enterprises-net	-	30,935	-	-
Unexpended plant-net	-	7,094	(14,304)	-
Repair and replacement-net	-	-	(10,000)	-
Retirement of debt-net	344,305	-	-	-
Total transfers	<u>344,305</u>	<u>(1,324)</u>	<u>(1,009,239)</u>	<u>-</u>
Net increase (decrease) in fund balance	<u>471,413</u>	<u>(105,242)</u>	<u>816,175</u>	<u>216,129</u>
Fund balances at beginning of year as previously reported	\$ <u>(3,428,825)</u>	<u>(383,376)</u>	<u>1,299,336</u>	<u>622,730</u>
Adjustments: (Note 1 & 7)				
Prior year revenues	11,946	171,993	(1,175)	(166)
Prior year expenditures	(201,223)	(68,617)	(33,537)	(64,981)
Compensated absences payable	(55,018)	1,934	(39,826)	(49,427)
Other	-	-	-	-
Total adjustments	<u>(244,295)</u>	<u>105,310</u>	<u>(74,538)</u>	<u>(114,574)</u>
Fund balances at beginning of year as adjusted	<u>(3,673,120)</u>	<u>(278,066)</u>	<u>1,224,798</u>	<u>508,156</u>
Fund balances at end of year	\$ <u>(3,201,707)</u>	\$ <u>(383,308)</u>	\$ <u>2,040,973</u>	\$ <u>724,285</u>

See notes to financial statements

Loan Funds	Endowment and Similar Funds	Plant Funds			
		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
\$ -	\$ -	\$ (6,883,904)	\$ (1,265,761)	\$ 9,143,018	\$ -
-	-	-	-	(344,305)	-
-	-	(7,094)	-	-	-
-	-	14,304	10,000	-	-
-	-	-	-	(322,843)	-
-	-	-	-	125,000	-
-	-	322,843	(125,000)	-	-
-	-	(6,553,851)	(1,380,761)	8,600,870	-
165,195	(5,858)	(6,490,860)	(221,801)	(642,152)	2,017,292
8,374,697	597,867	2,302,013	375,472	6,234,482	111,079,315
20,625	-	47,093	(2,000)	2,410	-
(134,508)	-	(58,819)	(7,773)	363,095	-
-	-	(500)	-	-	-
-	-	-	-	-	809,013
(113,883)	-	(12,226)	(9,773)	365,505	809,013
8,260,814	597,867	2,289,787	365,699	6,599,987	111,888,328
\$ 8,426,009	\$ 592,009	\$ (4,201,073)	\$ 143,898	\$ 5,957,835	\$ 113,905,620

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1987

	Unrestricted	
	General Operating	Designated
Revenues:		
Tuition and fees	\$10,170,040	\$ -
Federal appropriations	50,000	-
State appropriations	32,131,515	-
Federal grants and contracts	782,276	-
State grants and contracts	75,548	-
Private gifts, grants and contracts	198,874	-
Endowment income	-	-
Other sources	106,597	-
Sales and service	-	6,820,371
Total revenue	<u>43,514,850</u>	<u>6,820,371</u>
Expenditures and mandatory transfers:		
Education and general		
Instruction	24,287,565	-
Research	488,193	-
Public service	8,255	-
Academic support	5,479,785	-
Student services	4,003,785	-
Institutional support	3,275,133	-
Operation and maintenance of plant	4,764,929	-
Scholarships and fellowships	1,080,097	-
Other	-	-
Education and general expenditures	<u>43,387,742</u>	<u>-</u>
Designated and auxiliary enterprises:		
Expenditures	-	6,924,289
Mandatory transfers	-	39,353
Total designated and auxiliary	<u>-</u>	<u>6,963,642</u>
Total expenditures and mandatory transfers	<u>43,387,742</u>	<u>6,963,642</u>
Other transfers and additions (deductions):		
Excess of restricted receipts over transfers to revenue	-	-
Transfers	<u>344,305</u>	<u>38,029</u>
Net increase (decrease) in fund balance	\$ <u>471,413</u>	\$ <u>(105,242)</u>

See notes to financial statements

<u>Auxiliary Enterprises</u>	<u>Restricted</u>	<u>Total</u>
\$ -	\$ 34,927	\$ 10,204,967
-	-	50,000
-	-	32,131,515
-	10,852,054	11,634,330
-	1,227,163	1,302,711
-	2,920,563	3,119,437
-	23,619	23,619
-	2,821	109,418
11,610,346	-	18,430,717
<u>11,610,346</u>	<u>15,061,147</u>	<u>77,006,714</u>
-	686,753	24,974,318
-	5,154,348	5,642,541
-	2,248,335	2,256,590
-	339,173	5,818,958
-	165,198	4,168,983
-	725,227	4,000,360
-	46,256	4,811,185
-	5,507,845	6,587,942
-	188,012	188,012
-	<u>15,061,147</u>	<u>58,448,889</u>
9,784,932	-	16,709,221
954,000	-	993,353
<u>10,738,932</u>	-	<u>17,702,574</u>
<u>10,738,932</u>	<u>15,061,147</u>	<u>76,151,463</u>
-	216,129	216,129
(55,239)	-	327,095
\$ <u>816,175</u>	\$ <u>-</u>	\$ <u>1,398,475</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

1. Summary of significant accounting policies

Related parties:

Montana State University, Montana Agricultural Experiment Station and Montana Cooperative Extension Service are related through common management and control; however, they are separate and distinct agencies and they receive separate federal and state appropriations. These agencies have certain related-party transactions, including sharing office facilities, management, accounting and office services. The accounts of Montana Agricultural Experiment Station and Montana Cooperative Extension Service have not been included in the accompanying financial statements.

Financial Statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities except as noted hereafter.

The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balance for unrestricted general operating funds includes \$119,980 allocated for encumbrances netted to the \$15,546 revenue overage and the unfunded liability of \$3,337,233 for compensated absences payable. Fund balance for unrestricted designated funds includes negative fund balances of \$87,037 combined with the unfunded liability of \$296,271 for compensated absences payable.

Fund accounting:

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements. The common characteristics of the funds contained in the various fund groups are as follows:

Current funds:

The current funds group includes economic resources expendable in performing the primary objectives of the University, i.e., Instruction, Research and Public Service. The current funds group has two basic distinct sub-groups; unrestricted funds which have no expenditure restrictions, and restricted funds which have expenditure restrictions. Unrestricted current funds are comprised of the following:

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

1. Summary of significant accounting policies (continued)

Fund accounting (continued):

Current funds (continued):

General Operating - utilized for general operations in performing the primary objectives of the University.

Designated - utilized for educational related service activities; these funds are separately classified in order to accumulate and distinguish the costs of specialized service function areas.

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty, and staff.

Student loan funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by private and University sources with the majority of the funds being provided by the Federal Government.

Endowment funds:

Endowment funds are funds with specific restrictions negating the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income.

Plant funds:

Plant funds are separated into four distinct self-balancing sub-group accounts:

Unexpended plant - utilized for acquisition of long-term institutional assets.

Renewal and replacement - utilized for long-term institutional asset maintenance.

Retirement of indebtedness - utilized for interest and debt retirement.

Investment in plant - denotes the cost of long-term institutional assets and related liabilities.

Inventories:

Inventories, which consist mainly of food and operating supplies, are valued at cost (first-in, first-out method).

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1987

1. Summary of significant accounting policies (continued)

Investments:

Investments are carried at cost, which approximate market value at June 30, 1987.

Plant and equipment:

At June 30, 1987, investment in plant was adjusted \$809,013 to reflect the totals in the property control subsidiaries. Livestock is carried at current market value with any difference from the prior year values recorded in the plant fund.

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowance for Bad Debts:

Except for Loan Funds, an allowance for bad debts has not been recorded. Losses from bad debts in other funds are recorded as adjustments to revenue in the year in which they are deemed uncollectable.

Allocated for encumbrances:

The University records encumbrances of general operating funds as expenditures in conformance with the Statewide Budgeting and Accounting System.

At June 30, 1987, the University had encumbered \$119,980 of general operating funds that are not included in expenditures in the accompanying financial statements. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

Unearned tuition and fees:

Summer school tuition and fee revenues are deferred at June 30 and recorded as revenue in the succeeding fiscal year.

2. Endowment funds - land grants

Montana State University benefits from two separate land grants. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862 and the second, under the Enabling Act of 1889, granted an additional 50,000 acres for the University.

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1987

2. Endowment funds - land grants (continued)

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The State of Montana, State Land Board administers both grants and holds all assets.

Investment income from the first and second grant is currently pledged to the retirement of indenture revenue bonds and is reported as revenue in the retirement of indebtedness fund.

3. Investments

Investments at June 30, 1987 consist of the following:

	<u>Cost</u>
State of Montana short-term investment pool	\$ 4,833,705
U.S. Treasury securities, held by trustees	<u>13,474,557</u>
	<u>\$ 18,308,262</u>

The investments at June 30, 1987 are owned by the following funds:

Current funds:	
Designated	\$ 102,800
Auxiliary enterprises	2,191,500
Restricted	533,313
Loan funds	33,500
Endowment funds	590,600
Plant funds:	
Unexpended plant	7,358,931
Renewals and replacements	864,200
Retirement of indebtedness	6,034,226
Agency	<u>599,192</u>
	<u>\$ 18,308,262</u>

On January 30, 1987 the State Board of Investments converted all units in the State of Montana short-term investment pool from \$1,000 units to \$100 units. The sale resulted in a loss to endowment funds where funds are held in perpetuity.

4. Bonds payable

Revenue Bonds payable at June 30, 1987 with annual principal payments and interest rates, are as following:

MONTANA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1987

4. Bonds payable (continued)

	1985 B		1986 A		1987 A		Total Amount Payment
1988	\$ 440,000	6.00%	\$ -0-		\$ 120,000	5.10%	\$ 560,000
1989	470,000	6.50	-0-		130,000	5.40	600,000
1990	500,000	7.00	-0-		135,000	5.90	635,000
1991	540,000	7.25	-0-		140,000	6.10	680,000
1992	580,000	7.50	-0-		155,000	6.30	735,000
1993-		7.75-		6.60-		6.50-	
2009	3,585,000	8.65%	34,835,000	7.40%	1,645,000	8.00%	40,065,000
	<u>\$6,115,000</u>		<u>\$34,835,000</u>		<u>\$2,325,000</u>		<u>\$43,275,000</u>

The University's revenue bonds are audited annually by a certified public accounting firm; copies of the report are available upon request.

5. Debts refunded, issued, and escrowed

Refunding of October 1, 1985 and September 1, 1985 Indentures:

All bonds outstanding, under the October 1, 1985 (Series A) and September 1, 1985 (Series A) Indentures were refunded when funds from the sale of bonds issued under the August 15, 1986 (Series A) Indenture, along with funds on hand, were deposited in an irrevocable escrow account. Obligations of the United States Government, calculated to be sufficient to provide for the payment of principal and interest on the October 1, 1985 and September 1, 1985 refunded bonds as they become due, were purchased and are held by the Escrow Agent.

Issuance of November 1, 1985 Series B Indenture:

An original issue of \$6,530,000 dated November 1, 1985 consisting of fully registered bonds without coupons, 5.50% to 8.65%, principal maturing serially on November 15, 1986 through 1996, for the addition of 63,600 square feet to the Museum of the Rockies, including facilities for a planetarium, art collections, exhibits, auditoriums, classrooms, offices, storage, and preparation areas.

Issuance of August 15, 1986 Series A Indenture:

An original issue of \$34,835,000 dated August 15, 1986 consisting of fully registered bonds without coupons, 6.60% to 7.40%, principal maturing serially on November 15, 1993 through 2009, for the refunding of all bonds outstanding under the October 1, 1985 and September 1, 1985 Indentures. Other retirement of indebtedness deductions include \$1,290,173 to refund October 1, 1985 and September 1, 1985 Indentures and issue the August 15, 1986 Series A Indenture.

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1987

5. Debts refunded, issued, and escrowed (continued)

Issuance of June 15, 1987 Indenture:

An original issue of \$2,325,000 dated June 15, 1987 consisting of fully registered bonds without coupons, 5.10% to 8.00%, principal maturing serially on January 1, 1988 through 2003, for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University. Other retirement of indebtedness deductions include \$88,825 to issue the June 15, 1987 Indenture.

Heating Plant Conversion loan:

The proceeds of a four-year loan of \$250,000 with an interest rate of 6.50% with repayments on April 27, 1987 to 1990 is being used to convert the MSU Heating Plant from natural gas to propane.

The principle repayments are as follows:

1988	\$ 62,500
1989	62,500
1990	62,500
1991	31,250
	<u>\$218,750</u>

6. Retirement plans

All of the University's full-time employees are members of the Montana Public Employees Retirement System or Montana Teacher's Retirement System. The University's contributions to these plans, which were determined to be actuarially sound by the most recent biennial valuations, totaled \$2,668,562 for the year ended June 30, 1987.

7. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee.

Due to system limitations, the change in the compensated absences payable amount is stated as an adjustment and not identified with the fiscal period earned or utilized by the employee.

MONTANA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1987

7. Commitments and contingencies (continued)

Capital projects:

As of June 30, 1987, the University has initiated construction on the following major capital projects:

<u>Project</u>	<u>Amount Authorized</u>	<u>Amount Exp. as of 6/30/87</u>
University apartments '84	\$ 4,200,000	\$ 3,586,361
Animal lab facility	2,260,000	2,203,076
Museum indenture project	6,000,000	2,482,830
Controlled environmental facility	5,302,000	4,886,210
Langford parking lot	72,525	67,390
1984B On campus living construction	4,592,000	2,173,077
1984 P.E. indenture construction	1,400,000	1,336,624
Heating plant conversion	250,000	223,368
	<u>\$24,076,525</u>	<u>\$16,958,936</u>

Leases

The University reserves the right to limit the amount of expenditures associated with lease contracts without penalty when, in the sole judgment of the University, annual funding or program changes necessitate. Capital lease agreements for various purposes and time periods totaling \$135,276 at June 30, 1987 are not added to net investment in plant and not deemed to be material to the overall consolidated financial position of the University.

MONTANA STATE UNIVERSITY
BALANCE SHEETS
Year Ended June 30, 1986

ASSETS

CURRENT FUNDS:

Unrestricted:

General operating:

Cash	\$ 1,758,712
Accounts receivable	755,109
Due from other fund groups	2,778,843

Total general operating	<u>5,292,664</u>
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Designated:

Cash	152,164
Accounts receivable	312,230
Due from other fund groups	1,390,510
Investments (Note 3)	225,255
Inventories	510,343
Total designated	<u>2,590,502</u>

Auxiliary enterprises:

Cash	116,101
Accounts receivable	219,884
Due from other fund groups	45,529
Investments (Note 3)	1,650,308
Inventories	453,202

Total auxiliary enterprises	<u>2,485,024</u>
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Total unrestricted	10,368,190
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Restricted:

Cash	876,521
Accounts receivable	1,012,876
Due from other fund groups	17,162
Investments (Note 3)	645,071

Total restricted	<u>2,551,630</u>
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Total current funds	<u>\$12,919,820</u>
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STUDENT LOAN FUNDS:

Cash	\$ 128,985
Loans receivable - less allowance for bad debts \$346,604	8,318,502
Accounts receivable	238
Investments (Note 3)	35,689

Total student loan funds	<u>\$ 8,483,414</u>
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See notes to financial statements

LIABILITIES AND FUND BALANCES

CURRENT FUNDS:

Unrestricted:

General operating:

Accrued payroll	\$ 2,694,164
Accounts payable and accrued liabilities	965,231
Due to other fund groups	1,238,055
Deposits	26,287
Deferred revenue	515,537
Compensated absences payable (Note 7)	3,282,215
Fund balance (Note 1)	<u>(3,428,825)</u>
Total general operating	5,292,664

Designated:

Accrued payroll	253,603
Accounts payable and accrued liabilities	321,894
Due to other fund groups	2,129,720
Compensated absences payable (Note 7)	268,661
Fund balance (Note 1)	<u>(383,376)</u>
Total designated	<u>2,590,502</u>

Auxiliary enterprises:

Accrued payroll	255,758
Accounts payable and accrued liabilities	122,271
Deposits	216,406
Deferred revenue	37,743
Due to other fund groups	243,701
Compensated absences payable (Note 7)	309,809
Fund balance	<u>1,299,336</u>
Total auxiliary enterprises	<u>2,485,024</u>

Total unrestricted 10,368,190

Restricted:

Accrued payroll	413,275
Accounts payable and accrued liabilities	119,049
Due to other fund groups	1,166,908
Compensated absences payable (Note 7)	229,668
Fund balance	<u>622,730</u>
Total restricted	<u>2,551,630</u>

Total current funds \$12,919,820

STUDENT LOAN FUNDS:

Accounts payable and accrued liabilities	\$ 8,385
Due to other fund groups	100,332

Fund balances:

U.S. Government grants refundable	\$7,488,817
University funds	832,090
Private gifts	<u>53,790</u>

Total student loan funds \$ 8,374,697
\$ 8,483,414

MONTANA STATE UNIVERSITY
BALANCE SHEETS
Year Ended June 30, 1986

ASSETS

ENDOWMENT FUNDS:

Cash	\$ 5,473
Accounts receivable	101
Investments (Note 3)	592,293
Total endowment funds	<u>\$ 597,867</u>

PLANT FUNDS:

Unexpended:

Cash	\$ 147,950
Accounts receivable	760,704
Due from other fund groups	6,400
Investments (Note 3)	19,829,360
Construction advances to state	508,195

Total unexpended 21,252,609

Renewals and replacements:

Cash	3,169
Accounts receivable	41,567
Due from other fund groups	82,000
Investments (Note 3)	283,156

Total renewals and replacements 409,892

Retirement of indebtedness:

Cash	27,888
Accounts receivable	475,273
Investments (Note 3)	6,159,058

Total retirement of indebtedness 6,662,219

Investment in plant:

Land and land improvements	2,468,373
Buildings (including construction in progress)	86,273,767
Equipment	43,621,257
Livestock	79,275

Total investment in plant 132,442,672

Total plant funds \$160,767,392

AGENCY FUNDS:

Cash	\$ 60,207
Accounts receivable	138,478
Due from other fund groups	745,915
Investments (Note 3)	457,561

Total agency funds \$ 1,402,161

LIABILITIES AND FUND BALANCES

ENDOWMENT FUNDS:

Fund balance	\$ 597,867
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Total endowment funds	<u>\$ 597,867</u>
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PLANT FUNDS:

Unexpended:

Accounts payable and accrued expenditures	\$ 67,668
Due to other fund groups	52,103
Bonds payable (Note 4)	18,830,825
Fund balance	2,302,013

Total unexpended	<u>21,252,609</u>
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Renewals and replacements:

Accounts payable and accrued expenditures	2,163
Due to other fund groups	32,257
Fund balance	375,472

Total renewals and replacements	<u>409,892</u>
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Retirement of indebtedness:

Accounts payable and accrued expenditures	423,633
Due to other fund groups	4,104
Fund balance	6,234,482

Total retirement of indebtedness	<u>6,662,219</u>
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Investment in plant:

Bonds payable (Note 4)	21,320,543
Other payables	42,814
Net investment in plant	111,079,315

Total investment in plant	<u>132,442,672</u>
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Total plant funds	<u>\$160,767,392</u>
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AGENCY FUNDS:

Accrued payroll	\$ 11,459
Accounts payable and accrued liabilities	763,840
Compensated absences payable (Note 7)	3,059
Due to other fund groups	99,178
Deposits held in custody for others	524,625
Total agency funds	<u>\$ 1,402,161</u>

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 1986

	Current Funds			
	General Operating	Unrestricted Designated	Auxiliary Enterprises	Restricted
Revenue and other additions:				
Current funds revenue	\$44,713,070	\$ 7,566,544	\$11,691,571	\$13,264,785
Federal capital contribution	-	-	-	-
University capital contribution	-	-	-	-
Private capital contribution	-	-	-	-
Interest on loans receivable	-	-	-	-
Bond indenture proceeds (Note 5)	-	-	-	-
Student fees	-	-	-	-
Investment income	-	-	-	-
Endowment income & grants (Note 2)	-	-	-	-
Discount on bonds purchased	-	-	-	-
Debt retirement (Note 5)	-	-	-	-
Transfer of bond liability	-	-	-	-
Expended for plant facilities (including \$2,843,621 charged to current funds)	-	-	-	-
Insurance proceeds	-	-	-	-
State appropriations	-	-	-	-
Other	-	-	-	-
Total revenue and other additions	<u>44,713,070</u>	<u>7,566,544</u>	<u>11,691,571</u>	<u>13,264,785</u>
Expenditures and other deductions:				
Current funds expenditures	45,108,944	7,752,625	10,337,442	12,835,108
Loan cancellations	-	-	-	-
Refunded to grantors	-	-	-	-
Administrative expenditures	-	-	-	-
Provision for bad debts	-	-	-	-
Expended for plant facilities (Including \$369,743 non-capital expenditures)	-	-	-	-
Debt retirement (Note 5)	-	-	-	-
Interest on debt	-	-	-	-
Transfer of bond liability	-	-	-	-
Bond indenture debt (Note 5)	-	-	-	-
Loss on bond refunding (Note 5)	-	-	-	-
Other (Note 5)	-	-	-	-
Total expenditures and other deductions	<u>45,108,944</u>	<u>7,752,625</u>	<u>10,337,442</u>	<u>12,835,108</u>

See notes to financial statements

Loan Funds	Endowment and Similar Funds	Plant Funds			
		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
-	\$ -	\$ -	\$ -	\$ -	\$ -
370,342	-	-	-	-	-
25,296	-	-	-	-	-
485	18,295	-	-	-	-
125,622	-	-	-	-	-
-	-	-	-	29,110,000	-
-	-	368,454	-	1,109,002	-
19,558	688	1,635,723	29,017	509,000	-
-	-	-	-	731,000	-
-	-	-	-	-	-
-	-	-	-	-	28,036,170
-	-	2,606,871	-	-	-
-	-	-	-	-	8,492,088
-	-	-	-	-	-
-	-	3,514,593	-	-	-
-	-	1,873	6,253	261,075	-
541,303	18,983	8,127,514	35,270	31,720,077	36,528,258
-	-	-	-	-	-
23,446	-	-	-	-	-
729	-	-	-	-	-
57,854	-	-	-	-	-
18,702	-	-	-	-	-
-	-	5,473,440	544,772	-	-
-	-	-	-	28,036,170	-
-	-	-	-	2,468,911	-
-	-	-	-	-	2,606,871
-	-	-	-	-	29,110,000
-	-	-	-	1,149,089	-
-	-	-	-	1,699,035	-
100,731	-	5,473,440	544,772	33,353,205	31,716,871

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 1986

	Current Funds			
	Unrestricted		Auxiliary	Restricted
	General Operating	Designated	Enterprises	
Transfer among funds - additions (deductions):				
Mandatory:				
All fund groups	\$ (13,354)	\$ -	\$ (1,193,918)	\$ -
Voluntary:				
General operating	(9,320)	-	-	-
Designated	-	27,985	(22,095)	-
Auxiliary enterprises-net	-	-	(135,436)	-
Repair and replacement-net	-	-	-	-
Retirement of debt-net	-	-	143,706	-
Total transfers	<u>(22,674)</u>	<u>27,985</u>	<u>(1,207,743)</u>	<u>-</u>
Net increase (decrease) in fund balance	<u>(418,548)</u>	<u>(158,096)</u>	<u>146,386</u>	<u>429,677</u>
Fund balances at beginning of year as previously reported	<u>(3,206,965)</u>	<u>(134,369)</u>	<u>1,267,260</u>	<u>405,529</u>
Adjustments: (Note 1 & 7)				
Prior year revenues	162,395	16,062	(43,116)	(9,013)
Prior year expenditures	38,098	(83,686)	(62,698)	(154,443)
Compensated absences payable	(3,805)	(23,287)	(8,496)	(49,020)
Other	-	-	-	-
Total adjustments	<u>196,688</u>	<u>(90,911)</u>	<u>(114,310)</u>	<u>(212,476)</u>
Fund balances at beginning of year as adjusted	<u>(3,010,277)</u>	<u>(225,280)</u>	<u>1,152,950</u>	<u>193,053</u>
Fund balances at end of year	<u>\$ (3,428,825)</u>	<u>\$ (383,376)</u>	<u>\$ 1,299,336</u>	<u>\$ 622,730</u>

See notes to financial statements

Loan Funds	Endowment and Similar Funds	Plant Funds			
		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
\$ 13,354	\$ -	\$(2,228,016)	\$ 30,000	\$ 3,391,934	\$ -
-	-	-	-	9,320	-
-	-	(5,890)	-	-	-
-	-	119,897	15,539	-	-
-	-	(4,557)	4,557	-	-
-	-	84,349	320,000	(548,055)	-
13,354	-	(2,034,217)	370,096	2,853,199	-
453,926	18,983	619,857	(139,406)	1,220,071	4,811,387
7,977,449	573,884	1,692,985	520,473	4,927,061	106,489,097
(34,024)	-	(7,285)	15	87,350	-
(22,654)	-	(3,544)	(5,610)	-	-
-	-	-	-	-	-
-	5,000	-	-	-	(221,169)
(56,678)	5,000	(10,829)	(5,595)	87,350	(221,169)
7,920,771	578,884	1,682,156	514,878	5,014,411	106,267,928
\$8,374,697	\$ 597,867	\$ 2,302,013	\$ 375,472	\$ 6,234,482	\$111,079,315

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1986

	Unrestricted	
	General Operating	Designated
Revenues:		
Tuition and fees	\$ 9,431,382	\$ -
Federal appropriations	50,000	-
State appropriations	33,984,278	-
Federal grants and contracts	783,789	-
State grants and contracts	51,238	-
Private gifts, grants and contracts	232,254	-
Endowment income	-	-
Other sources	180,129	-
Sales and services	-	7,566,544
Total revenue	<u>44,713,070</u>	<u>7,566,544</u>
Expenditures and mandatory transfers:		
Education and general		
Instruction	25,199,895	-
Research	578,123	-
Public service	10,056	-
Academic support	5,913,180	-
Student services	4,215,244	-
Institutional support	3,450,639	-
Operation and maintenance of plant	4,844,928	-
Scholarships and fellowships	896,879	-
Other	-	-
Education and general expenditures	<u>45,108,944</u>	-
Designated and auxiliary enterprises:		
Expenditures	-	7,752,625
Mandatory transfers	13,354	-
Total designated and auxiliary	<u>13,354</u>	<u>7,752,625</u>
Total expenditures and mandatory transfers	<u>45,122,298</u>	<u>7,752,625</u>
Other transfers and additions (deductions):		
Excess of restricted receipts over transfers to revenue	-	-
Transfers	(9,320)	27,985
Net increase (decrease) in fund balance	\$ (418,548)	\$ (158,096)

See notes to financial statements

<u>Auxiliary Enterprises</u>	<u>Restricted</u>	<u>Total</u>
\$ -	\$ 6,704	\$ 9,438,086
-	-	50,000
-	-	33,984,278
-	9,682,142	10,465,931
-	820,827	872,065
-	2,290,311	2,522,565
-	31,208	31,208
-	3,916	184,045
<u>11,691,571</u>	-	<u>19,258,115</u>
<u>11,691,571</u>	<u>12,835,108</u>	<u>76,806,293</u>
-	704,029	25,903,924
-	4,278,671	4,856,794
-	1,347,911	1,357,967
-	187,991	6,101,171
-	208,822	4,424,066
-	327,031	3,777,670
-	10,447	4,855,375
-	5,560,917	6,457,796
-	209,289	209,289
-	<u>12,835,108</u>	<u>57,944,052</u>
10,337,442	-	18,090,067
<u>1,193,918</u>	-	<u>1,207,272</u>
<u>11,531,360</u>	-	<u>19,297,339</u>
<u>11,531,360</u>	<u>12,835,108</u>	<u>77,241,391</u>
-	429,677	429,677
<u>(13,825)</u>	-	<u>4,840</u>
<u>\$ 146,386</u>	<u>\$ 429,677</u>	<u>\$ (581)</u>

MONTANA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

1. Summary of significant accounting policies

Related parties:

Montana State University, Montana Agricultural Experiment Station and Montana Cooperative Extension Service are related through common management and control; however, they are separate and distinct agencies and they receive separate federal and state appropriations. These agencies have certain related-party transactions, including sharing office facilities, management, accounting and office services. The accounts of Montana Agricultural Experiment Station and Montana Cooperative Extension Service have not been included in the accompanying financial statements.

Financial Statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities except as noted hereafter.

The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balance for unrestricted general operating funds includes \$43,273 allocated for encumbrances netted to the \$189,883 revenue shortage and the unfunded liability of \$3,282,215 for compensated absences payable. Fund balance for unrestricted designated funds includes negative fund balances of \$114,715 combined with the unfunded liability of \$268,661 for compensated absences payable.

The Department of State Lands has determined that the University should be administering the Walsh Memorial Endowment, accordingly, \$5000 is included in adjustments to endowment funds.

Fund accounting:

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements. The common characteristics of the funds contained in the various fund groups are as follows:

Current funds:

The current funds group includes economic resources expendable in performing the primary objectives of the University, i.e.,

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

1. Summary of significant accounting policies (continued)

Fund accounting (continued):

Current funds (continued):

Instruction, Research and Public Service. The current funds group has two basic distinct sub-groups; unrestricted funds which have no expenditure restrictions, and restricted funds which have expenditure restrictions. Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the University.

Designated - utilized for educational related service activities; these funds are separately classified in order to accumulate and distinguish the costs of these specialized service or function areas.

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty, and staff.

Student loan funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by private and University sources with the majority of the funds being provided by the Federal Government.

Endowment funds:

Endowment funds are funds with specific restrictions negating the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income.

Plant funds:

Plant funds are separated into four distinct self-balancing sub-group accounts:

Unexpended plant - utilized for acquisition of long-term institutional assets.

Renewal and replacement - utilized for long-term institutional asset maintenance.

Retirement of indebtedness - utilized for interest and debt retirement.

Investment in plant - denotes the cost of long-term institutional assets and related liabilities.

MONTANA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

1. Summary of significant accounting policies (continued)

Inventories:

Inventories, which consist mainly of food and operating supplies, are valued at cost (first-in, first-out method).

Investments:

Investments are carried at cost, which approximate market value at June 30, 1986.

Plant and equipment:

At June 30, 1986, investment in plant was adjusted \$221,169 to reflect the totals in the property control subsidiaries. Livestock is carried at current market value with any difference from the prior year values recorded in the plant fund.

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowance for Bad Debts:

Except for Loan Funds, an allowance for bad debts has not been recorded. Losses from bad debts in other funds are recorded as adjustments to revenue in the year in which they are deemed uncollectable.

Allocated for encumbrances:

The University records encumbrances of general operating funds as expenditures in conformance with the Statewide Budgeting and Accounting System.

At June 30, 1986, the University had encumbered \$43,273 of general operating funds that are not included in expenditures in the accompanying financial statements. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

Unearned tuition and fees:

Summer school tuition and fee revenues are deferred at June 30 and recorded as revenue in the succeeding fiscal year.

MONTANA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

2. Endowment funds - land grants

Montana State University benefits from two separate land grants. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862 and the second, under the Enabling Act of 1889, granted an additional 50,000 acres for the University.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The State of Montana, State Land Board administers both grants and holds all assets.

Investment income from the first and second grant is currently pledged to the retirement of indenture revenue bonds and is reported as revenue in the retirement of indebtedness fund.

3. Investments

Investments at June 30, 1986 consist of the following:

	<u>Cost</u>
State of Montana short-term investment pool	\$ 4,582,637
U.S. Treasury securities, held by trustees	24,848,465
Federal securities	<u>446,648</u>
	<u>\$ 29,877,750</u>

The investments at June 30, 1986 are owned by the following funds:

Current funds:	
Designated	\$ 225,254
Auxiliary enterprises	1,650,308
Restricted	645,071
Loan funds	35,689
Endowment funds	592,293
Plant funds:	
Unexpended plant	19,829,360
Renewals and replacements	283,156
Retirement of indebtedness	6,159,058
Agency	<u>457,561</u>
	<u>\$29,877,750</u>

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 1986

4. Bonds payable

Bonds payable at June 30, 1986 include the following:

Indenture - October 1, 1985 - Series A 1985	\$29,110,000
Indenture - November 1, 1985 - Series B 1985	6,530,000
Indenture - September 1, 1985 - Sub series A 1985	4,511,367
	<u>\$40,151,367</u>

Principal payments due for the next five years and thereafter aggregate the following: 1986 - \$856,707; 1987 - \$909,003; 1988 - \$971,263; 1989 - \$1,038,485; 1990 - \$1,120,671; 1991 through 2009 - \$35,255,238.

The University's revenue bonds are audited annually by a certified public accounting firm; copies of the report are available upon request.

5. Bonds refunded, issued, and escrowed:

Refunding of December 1, 1984 and December 15, 1984 Indentures:

All bonds outstanding under the December 1, 1984 and December 15, 1984 Indentures totaling \$28,030,000 were refunded when funds from the sale of bonds issued under the October 1, 1985, Series A Indenture, along with funds on hand were deposited in an irrevocable escrow account. This resulted in a loss. Obligations of the United States Government, calculated to be sufficient to provide for the payment of principal and interest on the refunded bonds as they become due, were purchased and are held by the Escrow Agent. Other retirement of indebtedness deductions include \$1,699,035 to refund the December 1, 1984 and December 15, 1984 Indentures and issue the November 1, 1985, Series B and September 1, 1985, Series A Indentures.

Issuance of October 1, 1985, Series A Indenture:

An original issue of \$29,110,000 dated October 1, 1985 (restated in the November 1, 1985 Indenture), consisting of fully registered bonds without coupons, 9.00% to 9.75%, principal maturing serially on November 15, 1996 through 2009, to refund all bonds outstanding under the December 1, 1984 and December 15, 1984 Indentures.

Issuance of November 1, 1985, Series B Indenture:

An original issue of \$6,530,000 dated November 1, 1985 consisting of fully registered bonds without coupons, 5.50% to 8.65%, principal maturing serially on November 15, 1986 through 1996, for the addition of 63,600 square feet to the Museum of the Rockies, including facilities for a planetarium, art collections, exhibits, auditoriums, classrooms, offices, storage, and preparation areas.

Issuance of September 1, 1985, Series A Indenture:

Montana State University's portion (\$4,511,367 Sub series A) of an original issue of \$9,090,000 (Series 1985) dated September 1, 1985, consisting of fully registered bonds without coupons, 5.50% to 8.00%, principal maturing serially on December 15, 1986 through 1992, for the acquisition and installation of certain equipment.

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

6. Retirement plans

All of the University's full-time employees are members of the Montana Public Employees Retirement System or Montana Teacher's Retirement System. The University's contributions to these plans, which were determined to be actuarially sound by the most recent biennial valuations, totaled \$2,908,819 for the year ended June 30, 1986.

7. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee.

Due to system limitations, the change in the compensated absences payable amount is stated as an adjustment and not identified with the fiscal period earned or utilized by the employee.

Capital projects:

As of June 30, 1986, the University has initiated construction on the following major capital projects:

<u>Project</u>	<u>Amount Authorized</u>	<u>Amount Exp. as of 6/30/86</u>
Student union bldg. addition/renovation	\$ 5,364,358	\$ 5,364,358
Physical education facilities addition	2,500,000	2,497,320
University apartments '84	4,200,000	3,533,172
Animal lab facility	2,260,000	2,198,270
Visual communications building	4,598,000	4,596,378
Museum indenture project	6,000,000	219,883
Controlled environmental facility	5,302,000	4,094,451
Langford parking lot	72,525	5,610
1984B On campus living construction	4,592,000	138,663
1984 P.E. indenture construction	1,400,000	201,956
	<u>\$36,288,883</u>	<u>\$22,850,061</u>

Leases:

The University reserves the right to limit the amount of expenditures associated with lease contracts without penalty when in the sole judgment of the University annual funding or program changes necessitate. Capital lease agreements for various purposes and time periods totaling \$183,634 at June 30, 1986 are not added to net investment in plant and not deemed to be material to the overall consolidated financial position of the University.

MONTANA STATE UNIVERSITY
SCHEDULE OF FULL-TIME EQUIVALENT (FTE) STUDENTS
FOR THE TWO YEARS ENDING JUNE 30, 1987

<u>Quarter</u>	<u>Year</u>	<u>Undergraduate FTEs Reported¹</u>	<u>Graduate FTEs Reported²</u>	<u>Total FTEs³</u>
Summer	1985	1,194	458	1,652
Autumn	1985	9,571	487	10,158
Winter	1986	9,348	514	9,862
Spring	1986	8,225	513	8,738
Summer	1986	1,042	491	1,533
Autumn	1986	9,079	492	9,571
Winter	1987	8,950	479	9,429
Spring	1987	7,982	499	8,481

¹ Undergraduate quarterly credit hours divided by 15.

² Graduate quarterly credit hours divided by 12.

³ Includes both Unrestricted and Restricted funded FTEs.



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the accompanying Balance Sheets of the Agricultural Experiment Station (AES) at June 30, 1986 and 1987, and the related Statements of Changes in Fund Balances and Current Funds Revenues, Expenditures, and Other Changes for the two fiscal years ended June 30, 1987. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

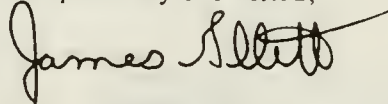
The university accounts for moneys charged to grants and designated to pay for future employee terminations in the Restricted Subfund. The use of these moneys are at the discretion of the university and, as such, should be accounted for in the Unrestricted Designated Subfund. As a result, the Restricted Subfund is overstated and the Unrestricted Designated Subfund is understated by the following amounts:

	<u>Fiscal Year</u> <u>1985-86</u>	<u>Fiscal Year</u> <u>1986-87</u>
Expenditures	\$69,271	\$(9,913)
Prior Year Expenditures	18,798	
Beginning Fund Balance		88,069
Compensated Absence Liability	88,069	78,156

The university improperly classified Restricted Subfund revenues in fiscal year 1985-86. As a result, state appropriations revenue is overstated by \$1,219,631; federal grant and contract revenue is understated by \$841,272; and state grant and contract revenue is understated by \$378,359.

In our opinion, except for the effects of the matters discussed in paragraphs two and three, the financial statements referred to above present fairly the financial position of the Agricultural Experiment Station at June 30, 1986 and June 30, 1987, the changes in fund balances, and the current funds revenue, expenditures, and other changes for each of the two fiscal years ended June 30, 1987, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a long horizontal flourish extending to the right.

James Gillett, CPA
Deputy Legislative Auditor

March 18, 1988

AGRICULTURAL EXPERIMENT STATION
BALANCE SHEETS
Year Ended June 30, 1987

ASSETS

CURRENT FUNDS:

Unrestricted:

General operating:

Cash	\$ 766,405
Accounts receivable	118,351
Due from other fund groups	161
Investments (Note 2)	57,000

Total general operating	<u>941,917</u>
-------------------------	----------------

Designated:

Cash	135,463
Accounts receivable	15,463
Due from other fund groups	26,901

Total designated	<u>177,827</u>
------------------	----------------

Total unrestricted	<u>1,119,744</u>
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Restricted:

Cash	112,749
Accounts receivable	290,671
Due from other fund groups	79,191
Investments (Note 2)	21,245

Total restricted	<u>503,856</u>
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Total current funds	<u>\$ 1,623,600</u>
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PLANT FUNDS:

Unexpended:

Cash	\$ 8,752
Accounts receivable	20,761
Investments (Note 2)	3,800
Due from other fund groups	3,000
Total unexpended	<u>36,313</u>

Renewals and replacements:

Cash	25,656
Accounts receivable	656
Investments (Note 2)	109,400
Total renewals and replacements	<u>135,712</u>

Investment in plant:

Land and land improvements	1,402,887
Buildings	4,088,220
Equipment	5,476,492
Livestock	1,643,834

Total investment in plant	<u>12,611,433</u>
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Total plant funds	<u>\$ 12,783,458</u>
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See notes to financial statements

LIABILITIES AND FUND BALANCES

CURRENT FUNDS:

Unrestricted:

General operating:

Accrued payroll	\$ 452,821
Accounts payable and accrued liabilities	248,026
Due to other fund groups	30,031
Compensated absences payable (Note 4)	975,071
Fund balance (Note 1)	(764,032)
Total general operating	<u>941,917</u>

Designated:

Accrued payroll	4,102
Accounts payable and accrued liabilities	28,072
Due to other fund groups	161
Compensated absences payable (Note 4)	7,177
Fund balance	138,315
Total designated	<u>177,827</u>

Total unrestricted 1,119,744

Restricted:

Accrued payroll	3,106
Accounts payable and accrued liabilities	217,777
Due to other fund groups	205,357
Compensated absences payable (Note 4)	86,500
Fund balance	(8,884)
Total restricted	<u>503,856</u>

Total current funds \$ 1,623,600

PLANT FUNDS:

Unexpended:

Accounts payable and accrued liabilities	\$ 347
Fund balances	35,966
Total unexpended	<u>36,313</u>

Renewals and replacements:

Fund balance	135,712
--------------	---------

Total renewals and replacements 135,712

Investment in plant:

Net investment in plant	12,611,433
-------------------------	------------

Total investment in plant 12,611,433

Total plant funds \$12,783,458

AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 1987

	Current Funds		
	Unrestricted		
	General Operating	Designated	Restricted
Revenue and other additions:			
Current funds revenue	\$8,151,585	\$ 457,712	\$ 2,497,192
Miscellaneous income	-	-	-
State appropriation	-	-	-
Expended for plant facilities (including \$317,118 charged to current funds)	-	-	-
Total revenue and other additions	<u>8,151,585</u>	<u>457,712</u>	<u>2,497,192</u>
Expenditures and other deductions:			
Current funds expenditures	8,183,337	437,452	2,491,332
Expended for plant facilities (including \$1,895 non-capital expenditures)	-	-	-
Total expenditures and other deductions	<u>8,183,337</u>	<u>437,452</u>	<u>2,491,332</u>
Transfers among funds-additions (deductions):			
Voluntary:	(3,000)	-	-
Total transfers	<u>(3,000)</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in fund balance	<u>(34,752)</u>	<u>20,260</u>	<u>5,860</u>
Fund balance at beginning of year as previously reported	<u>(790,118)</u>	<u>119,110</u>	<u>8,580</u>
Adjustments: (Note 1 & 4)			
Prior year revenues	106	-	75
Prior year expenditures	(14,185)	(18)	(9,650)
Compensated absences payable	74,917	(1,037)	(13,749)
Other	-	-	-
Total adjustments	<u>60,838</u>	<u>(1,055)</u>	<u>(23,324)</u>
Fund balances at beginning of year as adjusted	<u>(729,280)</u>	<u>118,055</u>	<u>(14,744)</u>
Fund balances at end of year	<u>\$ (764,032)</u>	<u>\$ 138,315</u>	<u>\$ (8,884)</u>

See notes to financial statements

Plant Funds		
Unexpended	Renewals and Replacements	Investment in Plant
\$ -	\$ -	\$ -
39,355	22,034	-
11,542		
-	-	318,722
50,897	22,034	318,722
-	-	-
35,533	17,663	-
35,533	17,663	-
3,000	-	-
3,000	-	-
18,364	4,371	318,722
16,927	131,341	12,464,201
-	-	-
675	-	-
-	-	-
-	-	(171,490)
675	-	(171,490)
17,602	131,341	12,292,711
\$ <u>35,966</u>	\$ <u>135,712</u>	\$ <u>12,611,433</u>

MONTANA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1987

	<u>Unrestricted</u>			
	<u>General</u>	<u>Designated</u>	<u>Restricted</u>	<u>Totals</u>
	<u>Operating</u>			
Revenues:				
Federal appropriations	\$1,675,718	\$ -	\$ -	\$ 1,675,718
State appropriations	5,637,523	-	61,927	5,699,450
Fed. grants and contracts	-	-	884,401	884,401
State grants and contracts	-	-	675,075	675,075
Private grants and con- tracts	-	-	869,637	869,637
Sales and service of educational activities	830,376	-	-	830,376
Other sources	7,968	457,712	292	465,972
Total revenues	<u>8,151,585</u>	<u>457,712</u>	<u>2,491,332</u>	<u>11,100,629</u>
Expenditures:				
Research	7,268,866	-	2,482,248	9,751,114
Institutional support	758,072	-	-	758,072
Operation and maintenance of plant	156,399	-	-	156,399
Other	-	437,452	9,084	446,536
Total expenditures	<u>8,183,337</u>	<u>437,452</u>	<u>2,491,332</u>	<u>11,112,121</u>
Transfers and other additions (deductions):				
Transfers	(3,000)	-	-	(3,000)
Excess of restricted receipts over transfers to revenue	<u>-</u>	<u>-</u>	<u>5,860</u>	<u>5,860</u>
Net increase (decrease) in fund balance	\$ <u>(34,752)</u>	\$ <u>20,260</u>	\$ <u>5,860</u>	\$ <u>(8,632)</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

1. Summary of significant accounting policies

Related parties:

Montana State University, Montana Agricultural Experiment Station and Montana Cooperative Extension Service are related through common management and control; however, they are separate and distinct agencies and they receive separate federal and state appropriations. These agencies have certain related party transactions, including sharing office facilities, management and accounting and office services. The accounts of Montana State University and Montana Cooperative Extension Service have not been included in the accompanying financial statements.

Financial statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities except as noted hereafter.

The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balance for unrestricted general operating funds includes \$50,253 allocated for encumbrances netted to the \$160,786 prior period revenue overage and to the unfunded liability of \$975,071 for compensated absences payable. Fund balance for restricted current funds includes unfunded liability of \$8,884 for compensated absences payable.

Fund accounting:

The accounts of the Station are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund, however, accounts with common characteristics are combined into groups and reflected as such in the accompanying financial statements.

Plant and equipment:

At June 30, 1987 investment in plant was adjusted \$171,490 to reflect the totals in the property control subsidiaries. Livestock is carried at current market value and any differences from the prior years values are reflected in this adjustment. Livestock is purchased and raised for experimental purposes; the revenues from livestock sales are recorded in the general operating fund, except when a breeding animal is sold and is expected to be replaced; then sales proceeds are recorded in designated funds and used for replacements as needed.

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

1. Summary of significant accounting policies (continued)

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowance of Bad Debts:

An allowance for bad debts has not been recorded. Losses from bad debts are recorded as adjustments to revenue in the year in which they are deemed uncollectable.

Allocated for encumbrances:

The Station may record encumbrances as expenditures in conformance with the Statewide Budgeting and Accounting System. At June 30, 1987 the University had encumbered \$50,253 of general operating funds that are not included in expenditures in the accompanying financial statements. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

Investments:

Investments are carried at cost, which approximate market value at June 30, 1987.

2. Investments

Investments at June 30, 1987 consist of the following:

	<u>Cost</u>
Montana short-term investment pool	\$ 191,445
	<u>\$ 191,445</u>

Investments at June 30, 1987 are owned by the following funds:

Current funds:	
General operating	\$ 57,000
Restricted	21,245
Plant funds:	
Unexpended	3,800
Renewals and replacements	109,400
	<u>\$ 191,445</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

3. Retirement plans

All of the Station's full-time employees are members of the Montana Public Employees Retirement System or the Montana Teachers Retirement System. Employer contributions to these systems, which were determined to be actuarially sound by the most recent biennial valuations, totaled \$417,128 for the year ended June 30, 1987.

4. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee.

Due to system limitations, the change in the compensated absences payable amount is stated as an adjustment and not identified with the fiscal period earned or utilized by the employee.

Leases:

The Station reserves the right to limit the amount of expenditures associated with lease contracts without penalty when, in the sole judgment of the Station, annual funding or program changes necessitate. Capital lease agreements for various purposes and time periods totaling \$500 at June 30, 1987 are not added to net investment in plant and not deemed to be material to the overall consolidated financial position of the Station.

Capital projects:

As of June 30, 1987, the Station has initiated construction on the following major capital projects:

<u>Project</u>	<u>Amount Authorized</u>	<u>Amount Exp. as of 6/30/87</u>
Farm Shop	\$ <u>120,000</u>	\$ <u>118,850</u>

AGRICULTURAL EXPERIMENT STATION
BALANCE SHEETS
Year Ended June 30, 1986

ASSETS

CURRENT FUNDS:

Unrestricted:

General operating:

Cash	\$ 586,456
Accounts receivable	65,720
Due from other fund groups	10,224
Investments (Note 2)	203,007

Total general operating 865,407

Designated:

Cash	143,917
Accounts receivable	2,173

Total designated 146,090

Total unrestricted 1,011,497

Restricted:

Cash	218,227
Accounts receivable	457,481
Due from other fund groups	134
Investments (Note 2)	39,911

Total restricted 715,753

Total current funds \$ 1,727,250

PLANT FUNDS:

Unexpended:

Cash	\$ 20,525
Accounts receivable	2,408
Investments (Note 2)	9,688
Total unexpended	<u>32,621</u>

Renewals and replacements:

Cash	13,381
Accounts receivable	749
Investments (Note 2)	<u>133,611</u>
Total renewals and replacements	<u>147,741</u>

Investment in plant:

Land and land improvements	1,400,724
Buildings	4,014,427
Equipment	5,360,122
Livestock	1,688,928
Total investment in plant	<u>12,464,201</u>

Total plant funds \$ 12,644,563

LIABILITIES AND FUND BALANCES

CURRENT FUNDS:

Unrestricted:

General operating:

Accrued payroll	\$ 441,872
Accounts payable and accrued liabilities	163,531
Due to other fund groups	134
Compensated absences payable (Note 4)	1,049,988
Fund balance (Note 1)	<u>(790,118)</u>
Total general operating	<u>865,407</u>

Designated:

Accrued payroll	7,088
Accounts payable and accrued liabilities	13,697
Due to other fund groups	55
Compensated absences payable (Note 4)	6,140
Fund balance	<u>119,110</u>
Total designated	<u>146,090</u>

Total unrestricted 1,011,497

Restricted:

Accrued payroll	4,441
Accounts payable and accrued liabilities	607,232
Compensated absences payable (Note 4)	95,500
Fund balance	<u>8,580</u>

Total restricted 715,753

Total current funds \$ 1,727,250

PLANT FUNDS:

Unexpended:

Accounts payable and accrued liabilities	\$ 15,694
Fund balances	<u>16,927</u>

Total unexpended 32,621

Renewals and replacements:

Accounts payable and accrued liabilities	6,231
Due to other fund groups	10,169
Fund balance	<u>131,341</u>
Total renewals and replacements	<u>147,741</u>

Investment in plant:

Net investment in plant	12,464,201
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Total investment in plant 12,464,201

Total plant funds \$12,644,563

AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 1986

	Current Funds		
	Unrestricted		
	General Operating	Designated	Restricted
Revenue and other additions:			
Current funds revenue	\$8,462,075	\$ 339,372	\$2,870,129
Miscellaneous income	-	-	-
Expended for plant facilities (including \$362,973 charged to current funds)	-	-	-
Total revenue and other additions	<u>8,462,075</u>	<u>339,372</u>	<u>2,870,129</u>
Expenditures and other deductions:			
Current funds expenditures	8,567,175	392,937	2,729,536
Expended for plant facilities (including \$7,570 non-capital expenditures)	-	-	-
Total expenditures and other deductions	<u>8,567,175</u>	<u>392,937</u>	<u>2,729,536</u>
Transfers among funds-additions (deductions):			
Voluntary:	-	-	-
Total transfers	-	-	-
Net increase (decrease) in fund balance	<u>(105,100)</u>	<u>(53,565)</u>	<u>140,593</u>
Fund balance at beginning of year as previously reported	<u>(647,662)</u>	<u>171,459</u>	<u>5,692</u>
Adjustments: (Note 1 & 4)			
Prior year revenues	7,935	2,133	3,546
Prior year expenditures	(32,408)	(148)	(121,468)
Compensated absences payable	(12,883)	(769)	(19,783)
Other	-	-	-
Total adjustments	<u>37,356</u>	<u>1,216</u>	<u>(137,705)</u>
Fund balances at beginning of year as adjusted	<u>(685,018)</u>	<u>172,675</u>	<u>(132,013)</u>
Fund balances at end of year	<u>\$ (790,118)</u>	<u>\$ 119,110</u>	<u>\$ 8,580</u>

See notes to financial statements

Plant Funds		
<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Investment in Plant</u>
\$ -	\$ -	\$ -
161,053	55,119	-
-	-	582,942
161,053	55,119	582,942
-	-	-
198,108	29,431	-
198,108	29,431	-
-	-	-
-	-	-
(37,055)	25,688	582,942
53,382	105,653	11,823,937
(50)	-	-
650	-	-
-	-	-
-	-	57,322
600	-	57,322
53,982	105,653	11,881,259
\$ 16,927	\$ 131,341	\$ 12,464,201

MONTANA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1986

	<u>Unrestricted</u>			
	<u>General</u>	<u>Designated</u>	<u>Restricted</u>	<u>Total</u>
	<u>Operating</u>			
Revenues:				
Federal appropriations	\$1,766,806	\$ -	\$ -	\$ 1,766,806
State appropriations	5,954,537	-	1,254,686	7,209,223
Fed. grants and contracts	-	-	463,956	463,956
State grants and contracts	-	-	-	-
Private grants and con- tracts	-	-	1,008,932	1,008,932
Sales and service of educational activities	706,759	-	-	706,759
Other sources	33,973	339,372	1,962	375,307
Total revenues	<u>8,462,075</u>	<u>339,372</u>	<u>2,729,536</u>	<u>11,530,983</u>
Expenditures:				
Research	7,621,645	-	2,716,615	10,338,260
Institutional support	809,063	-	-	809,063
Operation and maintenance of plant	136,467	-	-	136,467
Other	-	392,937	12,921	405,858
Total expenditures	<u>8,567,175</u>	<u>392,937</u>	<u>2,729,536</u>	<u>11,689,648</u>
Transfers and other additions (deductions):				
Transfers	-	-	-	-
Excess of restricted receipts over transfers to revenue	-	-	140,593	140,593
Net increase (decrease) in fund balance	<u>\$ (105,100)</u>	<u>\$ (53,565)</u>	<u>\$ 140,593</u>	<u>\$ (18,072)</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

1. Summary of significant accounting policies

Related parties:

Montana State University, Montana Agricultural Experiment Station and Montana Cooperative Extension Service are related through common management and control; however, they are separate and distinct agencies and they receive separate federal and state appropriations. These agencies have certain related party transactions, including sharing office facilities, management and accounting and office services. The accounts of Montana State University and Montana Cooperative Extension Service have not been included in the accompanying financial statements.

Financial statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities except as noted hereafter.

The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balance for unrestricted general operating funds includes \$259,870 prior period revenue overage netted to the unfunded liability of \$1,049,988 for compensated absences payable.

Fund accounting:

The accounts of the Station are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund, however, accounts with common characteristics are combined into groups and reflected as such in the accompanying financial statements.

Plant and equipment:

At June 30, 1986 investment in plant was adjusted \$57,322 to reflect the totals in the property control subsidiaries. Livestock is carried at current market value and any differences from the prior years values are reflected in this adjustment. Livestock is purchased and raised for experimental purposes; the revenues from livestock sales are recorded in the general operating fund, except when a breeding animal is sold and is expected to be replaced; then sales proceeds are recorded in designated funds and used for replacements as needed.

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

1. Summary of significant accounting policies (continued)

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowance of Bad Debts:

An allowance for bad debts has not been recorded. Losses from bad debts are recorded as adjustments to revenue in the year in which they are deemed uncollectable.

Allocated for encumbrances:

The Station may record encumbrances as expenditures in conformance with the Statewide Budgeting and Accounting System, however, at June 30, 1986, the Station had not encumbered any funds.

Investments:

Investments are carried at cost, which approximate market value at June 30, 1986.

2. Investments

Investments at June 30, 1986 consist of the following:

	<u>Cost</u>
Montana short-term investment pool	\$ 386,217
	<u>\$ 386,217</u>

Investments at June 30, 1986 are owned by the following funds:

Current funds:	
General operating	\$ 203,007
Restricted	39,911
Plant funds:	
Unexpended	9,688
Renewals and replacements	133,611
	<u>\$ 386,217</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

3. Retirement plans

All of the Station's full-time employees are members of the Montana Public Employees Retirement System or the Montana Teachers Retirement System. Employer contributions to these systems, which were determined to be actuarially sound by the most recent biennial valuations, totaled \$372,283 for the year ended June 30, 1986.

4. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee.

Due to system limitations, the change in the compensated absences payable amount is stated as an adjustment and not identified with the fiscal period earned or utilized by the employee.

Leases:

The Station reserves the right to limit the amount of expenditures associated with lease contracts without penalty when in the sole judgment of the Station annual funding or program changes necessitate. Capital lease agreements for various purposes and time periods totaling \$25,043 at June 30, 1986 are not added to net investment in plant and not deemed to be material to the overall consolidated financial position of the Station.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the accompanying Balance Sheets of the Cooperative Extension Service (CES) at June 30, 1986 and 1987, and the related Statements of Changes in Fund Balances and Current Funds Revenues, Expenditures, and Other Changes for the two fiscal years ended June 30, 1987. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The university did not eliminate interdepartmental transactions. As a result, revenues and expenditures in the Designated Subfund are overstated by \$88,890 in fiscal year 1985-86.

The university did not accrue expenditures. As a result, accounts payable and expenditures in the Designated Subfund are understated by \$26,641 in fiscal year 1985-86.

In our opinion, except for the effects of the matters discussed in paragraphs two and three, the financial statements referred to above present fairly the financial position of the Cooperative Extension Service at June 30, 1986 and June 30, 1987, the changes in fund balances, and the current funds revenue, expenditures, and other changes for each of the two fiscal years ended June 30, 1987, in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Respectfully submitted,

A handwritten signature in cursive script, reading "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

March 18, 1988

MONTANA COOPERATIVE EXTENSION SERVICE
BALANCE SHEETS
Year Ended June 30, 1987

ASSETS

CURRENT FUNDS:

Unrestricted:

General operating:

Cash	\$132,474
Accounts receivable	77
Due from other fund groups	68,441

Total general operating	<u>200,992</u>
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Designated:

Cash	87,484
Accounts receivable	44,245
Due from other fund groups	32,532
Inventories	87,809

Total designated	<u>252,070</u>
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Total unrestricted	<u>453,062</u>
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Restricted:

Cash	17,346
Accounts receivable	21,455
Due from other fund groups	8,376
Investments (Note 2)	1,442

Total restricted	<u>48,619</u>
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Total current funds	<u>\$501,681</u>
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PLANT FUNDS

Investment in plant:

Buildings	\$ 44,993
Equipment	<u>846,380</u>

Total plant funds	<u>\$891,373</u>
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See notes to financial statements

LIABILITIES AND FUND BALANCES

CURRENT FUNDS:

Unrestricted:

General operating:

Accrued payroll	\$269,012
Accounts payable and accrued liabilities	151,087
Due to other fund groups	32,541
Compensated absences payable (Note 4)	745,176
Fund balance (Note 1)	(996,824)
Total general operating	<u>200,992</u>

Designated:

Accrued payroll	27,090
Accounts payable and accrued liabilities	50,393
Due to other fund groups	48,097
Compensated absences payable (Note 4)	56,971
Fund balance	69,519
Total designated	<u>252,070</u>

Total restricted	<u>453,062</u>
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Restricted:

Accrued payroll	38,786
Accounts payable and accrued liabilities	34,869
Due to other fund groups	37,284
Compensated absences payable (Note 4)	62,739
Fund balance (Note 1)	(125,059)

Total restricted	<u>48,619</u>
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Total current funds	<u>\$501,681</u>
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PLANT FUNDS:

Investment in plant:

Net investment in plant	\$891,373
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Total plant funds	<u>\$891,373</u>
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MONTANA COOPERATIVE EXTENSION SERVICE
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 1987

	<u>Unrestricted</u>			<u>Plant Funds</u>
	<u>General</u>	<u>Designated</u>	<u>Restricted</u>	<u>Investment</u>
	<u>Operating</u>			<u>In Plant</u>
Revenues and other additions:				
Current funds revenue	\$3,922,056	\$ 566,887	\$ 868,972	\$ -
Expended for plant facilities (including \$51,759 charged to current funds expenditure)	-	-	-	51,759
Total revenues and other additions	<u>3,922,056</u>	<u>566,887</u>	<u>868,972</u>	<u>51,759</u>
Expenditures and other deductions:				
Current funds expenditures	<u>4,058,220</u>	<u>688,360</u>	<u>928,652</u>	-
Total expenditures and other deductions	<u>4,058,220</u>	<u>688,360</u>	<u>928,652</u>	-
Net increase (decrease) for the year	<u>(136,164)</u>	<u>(121,473)</u>	<u>(59,680)</u>	<u>51,759</u>
Fund balances at beginning of year as previously reported	<u>(842,111)</u>	<u>229,005</u>	<u>(68,934)</u>	<u>871,654</u>
Adjustments: (Note 1 & 4)				
Prior year revenues	-	(1,424)	3,346	-
Prior year expenditures	(13,331)	(31,167)	(6,359)	-
Compensated absences payable	(5,218)	(5,422)	6,568	-
Other	-	-	-	(32,040)
Total adjustments	<u>(18,549)</u>	<u>(38,013)</u>	<u>3,555</u>	<u>(32,040)</u>
Fund balance at beginning of year as adjusted	<u>(860,660)</u>	<u>190,992</u>	<u>(65,379)</u>	<u>839,614</u>
Fund balance at end of year	<u>\$ (996,824)</u>	<u>\$ 69,519</u>	<u>\$ (125,059)</u>	<u>\$ 891,373</u>

See notes to financial statements

MONTANA COOPERATIVE EXTENSION SERVICE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1987

	Unrestricted			
	General			
	Operating	Designated	Restricted	Total
Revenues:				
Federal appropriations	\$1,826,245	\$ -	\$ -	\$1,826,245
State appropriations	2,095,811	-	66,334	2,162,145
Federal grants and contracts	-	-	640,741	640,741
State grants and contracts	-	-	41,055	41,055
Local grants and contracts	-	-	5,205	5,205
Private gifts, grants and contracts	-	-	146,381	146,381
Other sources	-	566,887	28,936	595,823
Total revenues	<u>3,922,056</u>	<u>566,887</u>	<u>928,652</u>	<u>5,417,595</u>
Expenditures:				
Public service	3,086,686	-	926,950	4,013,636
Institutional support	909,508	-	-	909,508
Operation and maintenance of plant	62,026	-	-	62,026
Other	-	688,360	1,702	690,062
Total expenditures	<u>4,058,220</u>	<u>688,360</u>	<u>928,652</u>	<u>5,675,232</u>
Transfers and other additions (deductions):				
Excess of transfers to revenue over restricted receipts	<u>-</u>	<u>-</u>	<u>(59,680)</u>	<u>(59,680)</u>
Net increase (decrease) in fund balances	\$ <u>(136,164)</u>	\$ <u>(121,473)</u>	\$ <u>(59,680)</u>	\$ <u>(317,317)</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

1. Summary of significant accounting policies

Related parties:

Montana State University, Montana Agricultural Experiment Station and Montana Cooperative Extension Service are related through common management and control; however, they are separate and distinct agencies and they receive separate federal and state appropriations. These agencies have certain related-party transactions, including sharing office facilities, management, and accounting and office services. The accounts of Montana Agricultural Experiment Station and Montana State University have not been included in the accompanying financial statements.

Financial statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities except as noted hereafter. The statement of current funds revenues and expenditures is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balance for unrestricted general operating funds includes \$1,485 allocated for encumbrances netted to \$253,133 current and prior period revenue shortages and the unfunded liability of \$745,176 for compensated absences payable. Fund balance for restricted current funds includes \$62,320 net unbilled charges combined with the unfunded liability of \$62,739 for compensated absences payable.

Fund accounting:

The accounts of the Service are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund, however, accounts with common characteristics are combined into groups and reflected as such in the accompanying financial statements.

Inventory:

Inventory of paper and supplies are valued at cost (first-in, first-out method).

Plant and equipment:

At June 30, 1987 investment in plant was adjusted \$32,040 to reflect the totals in the property control subsidiaries.

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

1. Summary of significant accounting policies (continued)

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowance for Bad Debts:

An allowance for bad debts has not been recorded. Losses from bad debts are recorded as adjustments to revenue in the year in which they are deemed uncollectable.

Allocated for encumbrances:

The University records encumbrances of general operating funds as expenditures in conformance with the Statewide Budgeting and Accounting System.

At June 30, 1987, the University had encumbered \$1,485 of general operating funds that are not included in expenditures in the accompanying financial statements. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

2. Investments

Investments are carried at cost, which approximates market value; at June 30, 1987, investments consist of the following:

	<u>Cost</u>
Montana short-term investment pool	<u>\$1,442</u>
	<u>\$1,442</u>

Investments at June 30, 1987, are owned by the following fund:

Current funds:

Restricted	<u>\$1,442</u>
	<u>\$1,442</u>

3. Retirement plans

All of the Service's full-time employees are members of the Montana Public Employees Retirement System, Montana Teachers Retirement System or the U.S. Civil Service Retirement System. Employer contributions to these plans totaled \$286,788 for the year ended June 30, 1987. The State of Montana retirement plans were determined to be actuarially sound by the most recent biennial valuations.

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

4. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee.

Due to system limitations, the change in the compensated absences payable amount is stated as an adjustment and not identified with the fiscal period earned or utilized by the employee.

Leases:

The Service reserves the right to limit the amount of expenditures associated with lease contracts without penalty when, in the sole judgment of the Service, annual funding or program changes necessitate. No capital lease agreements for various purposes or time periods exist at June 30, 1987.

MONTANA COOPERATIVE EXTENSION SERVICE
BALANCE SHEETS
Year Ended June 30, 1986

ASSETS

CURRENT FUNDS:

Unrestricted:

General operating

Cash	\$198,190
Accounts receivable	4,868
Due from other fund groups	1,336

Total general operating	204,394
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Designated:

Cash	159,670
Accounts receivable	54,982
Due from other fund groups	3,338
Inventories	100,250

Total designated	318,240
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Total unrestricted	522,634
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Restricted:

Cash	68,600
Accounts receivable	18,594
Due from other fund groups	170
Investments (Note 2)	1,184

Total restricted	88,548
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Total current funds	\$611,182
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PLANT FUNDS

Investment in plant:

Buildings	\$ 44,508
Equipment	827,146

Total plant funds	\$871,654
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LIABILITIES AND FUND BALANCES

CURRENT FUNDS:

Unrestricted:

General operating:

Accrued payroll	\$247,382
Accounts payable and accrued liabilities	56,404
Due to other fund groups	2,762
Compensated absences payable (Note 4)	739,957
Fund balance (Note 1)	<u>(842,111)</u>
Total general operating	<u>204,394</u>

Designated:

Accrued payroll	23,785
Accounts payable and accrued liabilities	13,649
Due to other fund groups	253
Compensated absences payable (Note 4)	51,548
Fund balance	<u>229,005</u>
Total designated	<u>318,240</u>

Total unrestricted	<u>522,634</u>
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Restricted:

Accrued payroll	45,582
Accounts payable and accrued liabilities	41,632
Due to other fund groups	1,828
Compensated absences payable (Note 4)	68,440
Fund balance (Note 1)	<u>(68,934)</u>
Total restricted	<u>88,548</u>

Total current funds	<u>\$611,182</u>
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PLANT FUNDS:

Investment in plant:

Net investment in plant	<u>\$871,654</u>
-------------------------	------------------

Total plant funds	<u>\$871,654</u>
-------------------	------------------

MONTANA COOPERATIVE EXTENSION SERVICE
STATEMENT OF CHANGES IN FUND BALANCES
Year Ended June 30, 1986

	<u>Unrestricted</u>			<u>Plant Funds</u>
	<u>General</u>	<u>Designated</u>	<u>Restricted</u>	<u>Investment</u>
	<u>Operating</u>			<u>In Plant</u>
Revenues and other additions:				
Current funds revenue	\$4,072,105	\$ 746,334	\$ 904,942	\$ -
Expended for plant facilities (including \$96,544 charged to current funds expenditure)	-	-	-	96,544
Total revenues and other additions	<u>4,072,105</u>	<u>746,334</u>	<u>904,942</u>	<u>96,544</u>
Expenditures and other deductions:				
Current funds expenditures	<u>4,050,956</u>	<u>779,163</u>	<u>900,751</u>	-
Total expenditures and other deductions	<u>4,050,956</u>	<u>779,163</u>	<u>900,751</u>	-
Net increase (decrease) for the year	<u>21,149</u>	<u>(32,829)</u>	<u>4,191</u>	<u>96,544</u>
Fund balances at beginning of year as previously reported	<u>(895,547)</u>	<u>277,516</u>	<u>(6,458)</u>	<u>751,686</u>
Adjustments: (Note 1 & 4)				
Prior year revenues	-	(14,940)	5,113	-
Prior year expenditures	(1,826)	578	(35,827)	-
Compensated absences payable	34,113	(1,320)	(35,953)	-
Other	-	-	-	23,424
Total adjustments	<u>32,287</u>	<u>(15,682)</u>	<u>(66,667)</u>	<u>23,424</u>
Fund balance at beginning of year as adjusted	<u>(863,260)</u>	<u>261,834</u>	<u>(73,125)</u>	<u>775,110</u>
Fund balance at end of year	<u>\$ (842,111)</u>	<u>\$ 229,005</u>	<u>\$ (68,934)</u>	<u>\$ 871,654</u>

See notes to financial statements

MONTANA COOPERATIVE EXTENSION SERVICE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1986

	<u>Unrestricted</u>			
	<u>General</u>	<u>Designated</u>	<u>Restricted</u>	<u>Total</u>
	<u>Operating</u>			
Revenues:				
Federal appropriations	\$1,829,268	\$ -	\$ 570,060	\$2,399,328
State appropriations	2,242,837	-	99,223	2,342,060
Federal grants and contracts	-	-	114,569	114,569
State grants and contracts	-	-	11,854	11,854
Local grants and contracts	-	-		
Private gifts, grants and contracts	-	-	81,901	81,901
Other sources	-	746,334	23,144	769,478
Total revenues	<u>4,072,105</u>	<u>746,334</u>	<u>900,751</u>	<u>5,719,190</u>
Expenditures:				
Public service	3,103,600	-	898,937	4,002,537
Institutional support	916,398	-	1,602	918,000
Operation and maintenance of plant	30,958	-	-	30,958
Other	-	779,163	212	779,375
Total expenditures	<u>4,050,956</u>	<u>779,163</u>	<u>900,751</u>	<u>5,730,870</u>
Transfers and other additions (deductions):				
Excess of restricted receipts over transfers to revenue	-	-	4,191	4,191
Net increase (decrease) in fund balances	<u>\$ 21,149</u>	<u>\$ (32,829)</u>	<u>\$ 4,191</u>	<u>\$ (7,489)</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

1. Summary of significant accounting policies

Related parties:

Montana State University, Montana Agricultural Experiment Station and Montana Cooperative Extension Service are related through common management and control; however, they are separate and distinct agencies and they receive separate federal and state appropriations. These agencies have certain related-party transactions, including sharing office facilities, management, and accounting and office services. The accounts of Montana Agricultural Experiment Station and Montana State University have not been included in the accompanying financial statements.

Financial statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities except as noted hereafter.

The statement of current funds revenues and expenditures is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balance for unrestricted general operating funds includes \$102,154 prior period revenue shortage combined with the unfunded liability of \$739,957 for compensated absences payable. Fund balance for restricted current funds includes \$494 of unbilled charges combined with the unfunded liability of \$68,440 for compensated absences payable.

Fund accounting:

The accounts of the Service are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund, however, accounts with common characteristics are combined into groups and reflected as such in the accompanying financial statements.

Inventory:

Inventory of paper and supplies are valued at cost (first-in, first-out method).

Plant and equipment:

At June 30, 1986, investment in plant was adjusted \$23,424 to reflect the totals in the property control subsidiaries.

MONTANA COOPERATIVE EXTENSION SERVICE

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

1. Summary of significant accounting policies (continued)

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowance for Bad Debts:

An allowance for bad debts has not been recorded. Losses from bad debts are recorded as adjustments to revenue in the year in which they are deemed uncollectable.

2. Investments

Investments are carried at cost, which approximates market value; at June 30, 1986, investments consist of the following:

	<u>Cost</u>
Montana short-term investment pool	<u>\$1,184</u>
	<u>\$1,184</u>

Investments at June 30, 1986, are owned by the following fund:

Current funds:

Restricted	<u>\$1,184</u>
	<u>\$1,184</u>

3. Retirement plans

All of the Service's full-time employees are members of the Montana Public Employees Retirement System, Montana Teachers Retirement System or the U.S. Civil Service Retirement System. Employer contributions to these plans totaled \$318,037 for the year ended June 30, 1986. The State of Montana retirement plans were determined to be actually sound by the most recent biennial valuations.

4. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee.

Due to system limitations, the change in the compensated absences payable amount is stated as an adjustment and not identified with the fiscal period earned or utilized by the employee.

MONTANA COOPERATIVE EXTENSION SERVICE

NOTES TO FINANCIAL STATEMENTS

June 30, 1986

4. Commitments and contingencies (continued)

Leases:

The Service reserves the right to limit the amount of expenditures associated with lease contracts without penalty when in the sole judgment of the Service annual funding or program changes necessitate. No capital lease agreements for various purposes or time periods exist at June 30, 1986.

UNIVERSITY RESPONSE



Montana State University
Bozeman, Montana 59717

Office of the President

Telephone (406) 994-2341

June 3, 1988

RECEIVED

JUN 07 1988

**MONTANA LEGISLATIVE
AUDITOR**

Scott A. Seacat
Legislative Auditor
Capitol Building, Room 135
Helena, MT 59620

Dear Mr. Seacat:

The responses of Montana State University to the audit recommendations made relative to the audit report on Montana State University, the Cooperative Extension Service, and the Agricultural Experiment Station financial activity for fiscal years 1985-86 and 1986-87 are submitted herewith. As reflected by the number and magnitude of the audit recommendations contained in your report, we are continuing in our efforts to operate as efficiently and effectively as possible, while still maintaining compliance with the multitude of State and Federal regulations which govern our activities.

The evidence of our sound and responsible financial and business management is contained in the audit report. As we continue with our daily business affairs, we believe that progress is continually being made in improving our services, despite the many barriers which have been placed in front of us in recent years. We are proud to play an active part in assisting and cooperating with the Commissioner's Office and the Board of Regents in resolving the audit issues raised in this report, and in improving the relationships between the University System and the State Legislature.

We look forward to meeting with the Audit Committee to discuss the audit report and our responses, as well as any other issues which may be of interest to them.

Sincerely,

A handwritten signature in dark ink, appearing to read "William J. Tietz", is written over a light-colored background.

William J. Tietz
President

RECOMMENDATION NO. 1

WE RECOMMEND THE UNIVERSITY:

- A. ENTER INTO A WRITTEN CONTRACT WITH THE FOUNDATION SETTING FORTH RIGHTS AND DUTIES OF EACH PARTY.
- B. MONITOR THE CONTRACT TO ENSURE STATE FUNDS WERE SPENT IN ACCORDANCE WITH DONOR, STATE, AND UNIVERSITY LAWS AND POLICIES.
- C. ACCOUNT FOR DONATIONS TO THE UNIVERSITY IN THE APPROPRIATE STATE FUNDS.

RESPONSE NO. 1

- A. WE CONCUR. PRIOR TO THIS ISSUE BEING RAISED BY THE LEGISLATIVE AUDIT STAFF, WE HAD RECOGNIZED THE ADVANTAGES OF HAVING SUCH A WRITTEN AGREEMENT, AND WE HAD BEGUN TO WORK WITH THE FOUNDATION TO DEVELOP AND ESTABLISH A FORMAL WRITTEN AGREEMENT.
- B. WE CONCUR. A PRIMARY OBLIGATION OF THE FOUNDATION IS TO ASSURE THAT DONOR FUNDS ARE SPENT IN ACCORDANCE WITH DONOR STIPULATIONS. HOWEVER, THE FOUNDATION DOES NOT, AND SHOULD NOT BE EXPECTED TO MONITOR THE USE OF STATE FUNDS TO ASSURE THAT THEY ARE SPENT IN ACCORDANCE WITH STATE AND UNIVERSITY POLICIES. AS A PRIVATE NON-PROFIT CORPORATION WITH AN INTERNAL REVENUE SERVICE DESIGNATED "FOUNDATION" TAX STATUS, THE FOUNDATION RECORDS ARE AUDITED YEARLY BY A QUALIFIED INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRM. THE FOUNDATION WILL DEVELOP POLICIES AND PROCEDURES WHICH ALLOW THEM TO MAINTAIN THE SEPARATE IDENTITY OF STATE ASSETS FOR REPORTING AND AUDITING PURPOSES. THE UNIVERSITY CAN THEN REGULARLY MONITOR USE OF THE FUNDS FOR COMPLIANCE WITH STATE AND UNIVERSITY LAWS AND POLICIES.
- C. WE CONCUR. EFFECTIVE JULY 1, 1988, THE UNIVERSITY WILL RECORD THE RECEIPT OF DONATIONS DETERMINED TO BE STATE ASSETS, WITH APPROPRIATE ENTRIES IN THE SBAS RECORDS, SHOWING THE RECEIPTS OF ASSETS AND THE AMOUNT OF ASSETS TRANSFERRED TO THE FOUNDATION FOR MANAGEMENT PURPOSES.

RECOMMENDATION NO. 2

WE RECOMMEND THE UNIVERSITY ESTABLISH PROCEDURES TO ENSURE THE FINANCIAL ACTIVITY RECORDED ON SBAS IS IN ACCORDANCE WITH GAAP.

RESPONSE NO. 2

WE PARTIALLY CONCUR. PROCEDURES HAVE BEEN ESTABLISHED TO ACCOMMODATE AS MUCH FISCAL YEAR END ACTIVITY AS POSSIBLE IN THE SBAS REPORTS. WE ARE NOW RESEARCHING FEDERAL REGULATIONS TO DETERMINE WHETHER THE LOAN FUNDS WILL ALLOW AN EXPENDITURE FOR BAD DEBTS. THE QUESTION ARISES BECAUSE THE NEW FEDERAL

REGULATIONS DO NOT ALLOW CERTAIN FEDERAL LOANS TO BE WRITTEN OFF AS UNCOLLECTIBLE.

ANY UNEXPENDED FUNDS REMAINING IN A FIXED PRICE CONTRACT AFTER THE COMPLETION OF THE CONTRACT MUST BE IDENTIFIED SO THAT THEY CAN BE REMOVED FROM THE RESTRICTED ACCOUNTS AND PLACED IN DESIGNATED FUNDS. IF THOSE FUNDS LOSE THEIR IDENTITY IN A DESIGNATED FUND, SUCH A MOVE MAY REDUCE THE INCENTIVE FOR THE PROJECT TO BE COMPLETED IN A TIMELY AND EFFICIENT MANNER.

RECOMMENDATION NO. 3

WE RECOMMEND THE UNIVERSITY:

- A. RECORD THE BUDGETS APPROVED BY THE BOARD OF REGENTS.
- B. OBTAIN AUTHORIZED BUDGET AMENDMENTS BEFORE CHANGING THE APPROVED AMOUNTS RECORDED ON THE ACCOUNTING SYSTEM.

RESPONSE NO. 3

- A. WE CONCUR. INTERNAL PROCEDURES WERE CHANGED TO ASSURE THAT THE AMOUNTS RECORDED ON THE COMMISSIONER OF HIGHER EDUCATION FORMS ARE THE SAME AS THE AMOUNTS REPORTED ON THE SUBSEQUENT TURNAROUND DOCUMENTS.
- B. WE CONCUR. THIS WAS ACCOMPLISHED EFFECTIVE JULY 1, 1987.

RECOMMENDATION NO. 4

WE RECOMMEND THE UNIVERSITY COMPLY WITH THE APPROPRIATION BILL LANGUAGE CONCERNING ALLOCATION OF AUDIT COSTS.

RESPONSE NO. 4

WE CONCUR. THE LEGISLATIVE AUDIT COSTS BILLED TO MSU WILL BE SPLIT AND PAID, 50% BY STATE APPROPRIATED FUNDS AND 50% BY NON-APPROPRIATED FUNDS EACH YEAR OF THE BIENNIUM, BEGINNING WITH THE 1989 FISCAL YEAR.

RECOMMENDATION NO. 5

WE RECOMMEND THE UNIVERSITY USE THE CONTINGENT REVOLVING ACCOUNT IN COMPLIANCE WITH STATE POLICY.

RESPONSE NO. 5

WE CONCUR. IN NOVEMBER 1987, A MEMO WAS CIRCULATED TO ALL DEPARTMENTS ADVISING THEM THAT THE USE OF THE CONTINGENT REVOLVING FUND MUST BE REDUCED TO ASSURE COMPLIANCE WITH STATE LAWS AND POLICIES. SUBSTANTIAL PROGRESS HAS BEEN MADE IN REDUCING THE NUMBER OF TRANSACTIONS INVOLVING THE CONTINGENT REVOLVING ACCOUNT DURING THE PAST SEVERAL MONTHS.

RECOMMENDATION NO. 6

WE RECOMMEND THE UNIVERSITY REQUEST GRANT MONEYS IN A MANNER WHICH WILL MINIMIZE THE NECESSITY FOR THE STATE TO ADVANCE CASH TO GRANT PROGRAMS.

RESPONSE NO. 6

WE CONCUR. WHEN THIS ISSUE WAS BROUGHT TO OUR ATTENTION IN THE PREVIOUS AUDIT REPORT, WE CHANGED OUR PROCEDURES SO THAT THE LETTER OF CREDIT DRAWDOWNS OCCURRED MID-MONTH, AFTER THE MAIN PAYROLL EACH MONTH. THIS SIGNIFICANTLY REDUCED THE NEED FOR STATE CASH ADVANCES TO THE GRANT PROGRAMS. IN ADDITION, WE HAVE ATTEMPTED TO ORDER FEDERAL FUNDS BASED ON PLANNED NEEDS, SUCH AS FOR THE QUARTERLY DISBURSEMENT OF FINANCIAL AID FUNDS OR WHEN A MAJOR EXPENDITURE IS ANTICIPATED.

IN THE PAST, WE HAVE BEEN CRITICIZED BY THE FEDERAL AUDITORS FOR HAVING EXCESS FEDERAL CASH ON HAND. WE ARE MAKING EVERY ATTEMPT TO BALANCE THE CONCERNS OF THE FEDERAL AGENCIES WITH THE CONCERNS VOICED BY THE STATE AUDITORS, AND WE WILL CONTINUE TO PLAN AND ANTICIPATE NEEDS TO THE BEST OF OUR ABILITY.

RECOMMENDATION NO. 7

WE RECOMMEND THE UNIVERSITY DEPOSIT RECEIPTS ON A TIMELY BASIS IN ACCORDANCE WITH STATE LAW.

RESPONSE NO. 7

WE CONCUR. PERSONNEL CHANGES HAVE BEEN MADE RECENTLY IN AN ATTEMPT TO IMPLEMENT THIS RECOMMENDATION. THE EXTENSION SERVICE PRINT SHOP (MULTILITH) WILL DEPOSIT RECEIPTS ON A TIMELY BASIS IN ACCORDANCE WITH STATE LAW.

RECOMMENDATION NO. 8

WE RECOMMEND THE UNIVERSITY:

- A. SUBMIT ITS STUDENT CONFIRMATION REPORT TO THE CENTRAL PROCESSING CENTER ON A TIMELY BASIS.
- B. USE ITS COMPUTER REPORTS TO IDENTIFY STUDENTS AND NOTIFY LENDERS DIRECTLY OF ENROLLMENT CHANGES WHEN TIMELY NOTIFICATION CANNOT BE MET BY THE STUDENT CONFIRMATION REPORT PROCESS.

RESPONSE NO. 8

WE CONCUR. PRIOR TO APRIL 9, 1985, THE EXCHANGE OF INFORMATION REQUIRED UNDER FEDERAL REGULATIONS BETWEEN THE INSTITUTIONS, LENDERS, AND LOAN GUARANTEE AGENCIES WAS A LABOR INTENSIVE MANUAL PROCESS. RECOGNIZING OUR INABILITY TO ADEQUATELY COMPLY WITH THE FEDERAL REGULATIONS DUE TO OUR STAFFING LEVELS, WE AUTOMATED OUR REPORTING SYSTEM TO PERMIT A TAPE EXCHANGE BETWEEN AGENCIES AND TO VERIFY ENROLLMENT STATUS. OUR RECORDS INDICATE THAT ALL STUDENT CONFIRMATION REPORTS HAVE BEEN SUBMITTED WITHIN 30 DAYS OF RECEIPT SINCE OCTOBER 1986, AND THAT LENDERS ARE NOW BEING PROPERLY INFORMED OF ENROLLMENT CHANGES AS SPECIFIED IN THE FEDERAL REGULATIONS.

RECOMMENDATION NO. 9

WE RECOMMEND THE UNIVERSITY FOLLOW ITS POLICY AND REQUIRE THE SIGNATURE OF THE FINANCIAL AID OFFICE ON ALL STUDENT WITHDRAWALS.

RESPONSE NO. 9

WE CONCUR. ALL STUDENT WITHDRAWALS NOW REQUIRE THE SIGNATURE OF THE FINANCIAL AID ADMINISTRATOR AND/OR HIS DESIGNATED REPRESENTATIVE IF THE STUDENT WAS A FINANCIAL AID RECIPIENT.

